CONGRESSIONAL DIGEST

The Pro and Con Monthly

April, 1933

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Pro and Con Discussion: Should America Adopt a Unified Banking System?

Progress of Major Legislation in Congress

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The Pro and Con Monthly

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Congressional Digest

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April, 1933

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The 73d Congress Faces the Banking Problem

Foreword

With absolute control of all the banks of the country in the hands of the President, by virtue of the special emergency banking legislation enacted by Congress on March 9, the attention of the Administration and Congress is about to be turned toward the enactment of such amendments to the general banking laws as they consider desirable for permanent strengthening of the American financial structure.

Until the past year the main desire has been to so gear the banking structure that it could function more smoothly in the interest of the development of business.

With the increase in the number of bank failures, however, came hoarding. Men and women in all walks of life were becoming distrustful of banks and were putting their money in safe deposit boxes or in secret hiding places.

Wise observers, in government, financial and business circles, saw plainly that the distrust of banks was growing and that something must be done to restore public confidence in them.

As a result, attention became focused on the needs of the rank and file of citizens who had been accustomed to deposit their money in banks in the past but who were abandoning that practice. The cry arose that, after all, the most important factor in the entire situation was the depositor. Unless he continued to deposit his earnings in the banks the whole banking machinery would be thrown out of gear. Consequently, the protection of the depositors became a burning issue.

Long-time advocates of guaranty of deposits were quick to grasp the opportunity. Representative Henry B. Steagall, Democrat, of Alabama, Chairman of the House Committee on Banking and Currency, introduced in the last Congress a bill for this purpose. It passed the House on May 27, 1932, but did not come to a vote in the Senate.

It seems safe to predict, however, that something in the nature of guaranty of deposits will be considered by Congress when it takes up banking legislation.

At the beginning of the present session it was generally supposed that the Glass banking bill, which was passed by the Senate last session but not by the House, and which was reintroduced in the Senate at this session, would furnish the framework for the general revision plans of the administration.

Recently, however, it has been indicated that better results might be obtained if different phases of banking legislation were considered separately, in individual bills. If this plan is adopted special banking bills will probably be brought out and considered one at a time.

As the Digest goes to press Congress is still waiting for information from President Roosevelt concerning banking legislation. Unconfirmed rumors are to the effect that the administration will ask for piecemeal revision of the banking laws in preference to an attempt at general revision in one single bill. Authoritative information on this point, however, is lacking. It was stated at the White House on March 23 that no decision had been reached on the subject.

Both houses of Congress are flooded with banking bills covering every phase of the problem, but until the White House is heard from no safe prediction can be made as to the exact trend of the forthcoming legislation.

It is certain, however, that the entire battle will rage around the question of unified control of the banking system of America. In the end it will be a knock down and drag out fight between advocates of the present dual system and advocates of the unified system.

A study of all the arguments, pro and con, inside and outside of Congress, shows plainly that unification is the real issue at stake. This applies to legislation to increase the powers of the Comptroller of the Currency and the Federal Reserve Board; branch banking and guaranty of deposits.

Supporters of the existing dual system, in opposing the above mentioned measures, invariably point out that their ultimate effect will be to force the state-chartered banks to join the Federal or National system or go out of business.

It seems probable that the Administration will not be in a hurry to ask Congress to enact permanent bank reform legislation. At present the President has full control of the situation and the chances are that he will direct the Secretary of the Treasury to exercise the closest scrutiny over all banks in order to determine their soundness and will direct the Attorney General to prosecute in cases where the law has been violated.

He does not need legislation to accomplish these purposes and some observers on Capitol Hill feel that it would be unwise to attempt permanent legislation until the existing banking condition is cleaned up.

In the following pages will be found a brief record of the coming of the Nation-wide banking emergency and how it was met in Washington; a complete chronological listing of the banking regulations issued by the Secretary of the Treasury pursuant to the authority vested in the President by the emergency banking act; a summary of the provisions of that act, and a pro and con discussion of general banking problems, in which all phases of the situation are discussed.

Events Leading to the Bank Crisis of 1933

February 14. The Governor of Michigan closed all banks in the State by executive order. Measures to restrict withdrawals of bank deposits or to close the banks were rapidly taken by other States either by proclamation of the Governor, special emergency legislation or, in the case of restrictive measures by the State banking official, or officers of the banks.

February 24. The Governor of Maryland proclaimed a "legal holiday."

February 27. Indiana announced restrictions of withdrawals.

February 28. New Jersey, Kentucky, Indiana, Ohio, Pennsylvania, Arkansas, West Virginia and Nevada restricted bank deposit withdrawals.

March 1. Alabama, Louisiana, Kentucky and Tennessee declared bank holidays. Maryland extended the bank "legal holiday," while in Minnesota and Kansas withdrawals were limited.

March 2. The Governors of the following States proclaimed legal bank holidays: California, Texas, Idaho, Nevada, Arizona and Washington. Restrictions were extended in Mississippi. The bank holiday in Kentucky was extended.

March 3. Georgia, Wisconsin, New Mexico and Oklahoma declared bank holidays under proclamation of their respective Governors, Arkansas by legislative act. Kansas, Minnesota, Virginia and North Carolina authorized restrictions of bank deposit withdrawals.

March 4. New York and Illinois joined the bank holiday with the issuance of proclamations by their respective governors in the early hours of the morning. The following States followed: Missouri, Iowa, Rhode Island, Massachusetts, Maine, New Hampshire, Nebraska, Pennsylvania, Vermont, Connecticut, Minnesota and New Jersey.

March 5. Following all-day conferences with officers of the Treasury and the Federal Reserve Board, the President at 11 p. m. made public a proclamation placing a temporary embargo on all gold exports and ordering all banks throughout the country to suspend operations through March 9.

March 6. The President's proclamation was formally signed and officially promulgated and dated March 6, since March 5 was Sunday and, therefore, not a legal day.

On March 6 the status of banking operations throughout various states was, according to Associated Press reports, as follows:

Alabama—Closed until further notice.
Arizona—Closed until March 13.
Arkansas—Closed until March 7.
California—Almost all closed until March 9.
Colorado—Closed until March 8.
Connecticut—Closed until March 7.
Delaware—Closed indefinitely.
District of Columbia—Three banks limited to 5 per cent; nine savings banks invoked sixty days' notice.
Florida—Withdrawals restricted to 5 per cent, plus $10 until March 9.
Georgia—Mostly closed through March 9; closing optional.
Idaho—Some closed until March 18; closing optional.
Illinois—Closed until March 8, then to be opened on 5 per cent restricted basis for seven days.
Indiana—About half restricted to 5 per cent indefinitely.
Iowa—Closed temporarily.
Kansas—Restricted to 5 per cent withdrawals indefinitely.
Kentucky—Mostly restricted to 5 per cent withdrawals until March 11.
Louisiana—Closing mandatory until March 7.
Maine—Closed until March 7.
Maryland—Closed until March 7.
Massachusetts—Closed until March 7.
Michigan—Mostly closed, others restricted to 5 per cent indefinitely; Upper Peninsula banks open.
Minnesota—Closed temporarily.
Mississippi—Three-day holiday ordered, starting today.
Missouri—Closed until March 7.
Montana—Closed until further notice.
Nebraska—Closed until March 8.
Nevada—Closed until March 8; also schools.
New Hampshire—Closed subject to further proclamation.
New Jersey—Closed until March 7.
New Mexico—Mostly closed until March 8.
New York—Closed until March 7.
North Carolina—Closed until March 9; Bank Commissioner ordered to take necessary action to protect depositors then.
North Dakota—Closed temporarily.
Ohio—Mostly restricted to 5 per cent withdrawals indefinitely.
Oklahoma—Closed until March 8.
Oregon—Closed until March 7.
Pennsylvania—Mostly closed until March 7; Pittsburgh banks open.
Rhode Island—Ordered closed today.
South Carolina—Governor decides on seven-day holiday starting today.
South Dakota—Closed indefinitely.
Tennessee—Few closed, others restricted, through March 10.
Texas—All closed until March 8.
Utah—Mostly closed until March 8.
Vermont—Closed until March 7.
Virginia—Closed until March 8.
Washington—Some closed until March 7.
West Virginia—Restricted to 5 per cent monthly withdrawals indefinitely.
Wisconsin—Closed until March 17.
Wyoming—Withdrawals, restricted to 5 per cent indefinitely.

The Roosevelt Administration Meets the Crisis

No sooner had Franklin D. Roosevelt been sworn in as President of the United States than he came face to face with what was perhaps the most extraordinary peace time emergency in the history of the American Republic.

For more than two weeks prior to March 4, state officials had been closing or restricting the operations of banks in various states. The climax was reached about March 1, but that climax had been approaching so rapidly that officials of the Hoover Administration were anxiously seeking a method of action.

Press reports have stated that around the middle of February, Ogden L. Mills urged national action to close the banks and that President Hoover expressed willingness to take such action provided Mr. Roosevelt, as incoming President, would join him. This, the newspaper reports declared, Mr. Roosevelt was unwilling to do. Finally Mr. Mills, according to these reports, urged President Hoover on March 3, to issue a proclamation on his own responsibility. This, it was stated, President Hoover declined to do, on the ground that such action by him on the last day of his term of office would be misconstrued.

These reports have been neither confirmed nor denied officially by Mr. Hoover or Mr. Roosevelt, but are interesting as background of the events that followed each other so rapidly from March 4, on.

In his inaugural address on March 4, President Roosevelt made the following references to the banking situation:

"Practices of the unscrupulous money changers stand indicted in the court of public opinion, rejected by the hearts and minds of men.

"Finally, in our progress toward a resumption of work we require two safeguards against a return of the evils of the old order; there must be a strict supervision of all banking and credits and investments; there must be an end to speculation with other people's money, and there must be provision for an adequate but sound currency.

"Our Constitution is so simple and practical that it is possible always to meet extraordinary needs by changes in emphasis and arrangement without loss of essential form. That is why our constitutional system has proved itself the most superbly enduring political mechanism the modern world has produced. It has met every stress of vast expansion of territory, of foreign wars, of bitter internal strife, of world relations.

"It is to be hoped that the normal balance of executive and legislative authority may be wholly adequate to meet the unprecedented task before us. But it may be that an unprecedented demand and need for undelayed action may call for temporary departure from that normal balance of public procedure.

"I am prepared under my constitutional duty to recommend the measures that a stricken nation in the midst of a stricken world may require. These measures, or such other measures as the Congress may build out of its experience and wisdom, I shall seek, within my constitutional authority, to bring to speedy adoption.

"But in the event that the Congress shall fail to take one of these two courses, and in the event that the national emergency is still critical, I shall not evade the clear course of duty that will then confront me. I shall ask the Congress for the one remaining instrument to meet the crisis—broad Executive power to wage a war against the emergency, as great as the power that would be given to me if we were in fact invaded by a foreign foe."

On the evening of March 4, and throughout March 5, which was Sunday, William H. Woodin, the new Secretary of the Treasury, Ogden L. Mills, retiring Secretary, officers of the Federal Reserve Board and others held a series of meetings, as the result of which, President Roosevelt, at 11 p. m. on March 5, issued his proclamation which was officially put into effect on the morning of March 6, closing all banks from March 6 to March 9. On March 9 Congress met in extraordinary session in response to a call from the President. On that date the President sent to Congress a draft of a bill giving him broad emergency powers over the banks. This bill was promptly passed by both houses, although there was only a single copy available for each house.

Following the President's proclamation of March 6 and the passage of the Emergency Banking bill on March 9, the Secretary of the Treasury began issuing regulations for the banks.

The full text of the President's proclamation and of the Treasury regulations, in the order of their utterance, are given below.

■

The President's Bank Proclamation

Whereas there have been heavy and unwarranted withdrawals of gold and currency from our banking institutions for the purpose of hoarding and

Whereas continuous and increasingly extensive speculative activity abroad in foreign exchange has resulted in severe drains on the Nation's stocks of gold; and

Whereas these conditions have created a national emergency; and

Whereas it is in the best interests of all bank depositors that a period of respite be provided with a view to preventing further hoarding of coin, bullion or currency or speculation in foreign exchange and permitting the application of appropriate measures to protect the interests of our people; and

Whereas it is provided in section 5 (B) of the act of October 6, 1917 (40 Stat. L. 411), as amended, "that the President may investigate, regulate, or prohibit, under such rules and regulations as he may prescribe, by means of licenses or otherwise, any transactions in foreign exchange and the export, hoarding, melting, or earmarking of gold or silver coin or bullion or currency, * * * and

Whereas it is provided in section 16 of the said act "that whoever shall willfully violate any of the provisions of this Act or of any license, rule, or regulation issued thereunder, and whoever shall willfully violate, neglect, or refuse to comply with any order of the President issued in compliance with the provisions of this act, shall, upon conviction, be fined not more than $10,000, or, if a natural person, imprisoned for not more than ten years, or both, * * *;"

Now, therefore, I, Franklin D. Roosevelt, President of the United States of America, in view of such national emergency and by virtue of the authority vested in me by said act and in order to prevent the export, hoarding, or earmarking of gold or silver coin or bullion or currency, do hereby proclaim, order, direct and declare that from Monday, the sixth day of March, to Thursday, the ninth day of March, nineteen hundred and thirty-three, both dates inclusive, there shall be maintained and observed by all banking institutions and all branches thereof located in the United States of America, including the Territories and Insular Possessions, a bank holiday, and that during said period all banking transactions shall be suspended. During such holiday, excepting as hereinafter provided, no such banking institution or branch shall pay out, export, earmark, or permit the withdrawal or transfer in any manner or by any device whatsoever, of any gold or silver coin or bullion or currency or take any other action which might facilitate the hoarding thereof; nor shall any such banking institution or branch pay out deposits, make loans or discounts, deal in foreign exchange, transfer credits from the United States to any place abroad, or transact any other banking business whatsoever.

During such holiday the Secretary of the Treasury, with the approval of the President, under such regulations as he may prescribe, is authorized and empowered (a) to permit any or all of such banking institutions to perform any or all of the usual banking functions, (b) to direct, require or permit the issuance of clearing house certificates or other evidences of claims against assets of banking institutions, and (c) to authorize and direct the creation in such banking institutions of special trust accounts for the receipt of new deposits which shall be subject to withdrawal on demand without any restriction or limitation and shall be kept separately in cash or on deposit in Federal Reserve banks or invested in obligations of the United States.

As used in this order the term "banking institutions" shall include all Federal Reserve banks, national banking associations, banks, trust companies, savings banks, building and loan associations, credit unions, or other corporations, partnerships, associations or persons engaged in the business of receiving deposits, making loans, discounting business paper, or transacting any other form of banking business.

■

Treasury Regulations Under the Emergency Law

March 6

1—Under the authority conferred upon him by the President's Proclamation of March 6, 1933, declaring a bank holiday, the Secretary of the Treasury has authorized all Federal reserve banks and all other banking institutions to make change by the exchange of currency and/or coin of various denominations for an exactly equal amount of currency and/or coin of other denominations, but no gold or gold certificates shall be paid out in making change.

2—All banking institutions may allow their customers free access to the safety deposit boxes and safes rented to such customers.

3—All banking institutions may upon request return intact and without restriction all cash, checks, and other items delivered for deposit or collection which were received after the last closing of business hours and have not been entered on the books of such banking institution.

4—All banking institutions may continue, in accordance with usual practice, to cash checks drawn on the Treasurer of the United States, provided that no gold or gold certificates shall be paid out.

5—Any banking institution may accept payments in cash or any other form acceptable to it on account or in settlement of obligations payable at or to such institution.

6—Any banking institution may handle and collect drafts or other documents in connection with the shipment, transportation or delivery of food or feed products, may pay out or permit the withdrawal of such amounts of currency as shall be necessary in the judgment of such banking institution in connection with such shipment, transportation or delivery of food or feed products, and may perform such other banking functions as may be essential to the shipment, transportation or delivery of food or feed products, provided, however, that no banking institution shall pay out or permit the withdrawal of any gold or gold certificates.

7—Deposits heretofore received by any banking institution pursuant to agreement or legislative authority providing for segregation and for repayment without restriction may be paid on demand. Any banking institution which was lawfully engaged in the business of receiving deposits prior to March 6, 1933, may create special trust accounts for the receipt of new deposits which shall be subject to withdrawal on demand without any restriction or limitation and shall be kept separately in cash or on deposit in Federal Reserve Banks or invested in obligations of the United States. Federal reserve banks may open special accounts on their books for their member banks and temporarily for non-member banks and may receive in such special accounts the proceeds of new deposits received by such banking institutions. In making deposits with the Federal reserve bank pursuant to this regulation the depositing bank shall in the case of each deposit indicate to the Federal reserve bank by symbol or otherwise that the funds so deposited represent new deposits made under this regulation. Upon receipt of such deposits such Federal reserve bank shall credit the same in the special account of the depositing bank herein provided for and shall hold the same solely for repayment to such bank. Federal reserve banks shall permit the withdrawal of any part or all of such new deposits by the depositing bank without restriction provided that the depositing bank shall in such order or request for withdrawal indicate to the Federal reserve bank by symbol or otherwise that such withdrawal is to be made from such special account, provided however that no banking institution shall pay out or permit the withdrawal of any gold or gold certificates.

March 7

8—Where settlement for checks charged by drawee institutions to the drawers' accounts on its books on or before March 4, 1933, is incomplete, settlement may be completed where such settlement does not involve the payment of money or currency.

9—Any banking institution may deliver to the person entitled thereto properly identified documents and securities held by such institution for safekeeping.

Under the terms of the Act of March 9, 1933, immediate action has been taken by the President and the Secretary of the Treasury which will make possible the resumption of banking operations in substantial volume at a very early date. Pending such resumption the vital needs of communities must be met. Attention of all banking institutions is called to Regulation 10 which is still in force and which as amended provides for cooperation between banks in different communities and reads as follows:

10—Any national or State banking institution may exercise its usual banking functions to such extent as its situation shall permit and as shall be absolutely necessary to meet the needs of its community for food, medicine, other necessities of life, for the relief of distress, for the payment of usual salaries and wages, for necessary current expenditures for the purpose of maintaining employment, and for other similar essential purposes. Banking institutions may carry out such transactions as may be necessary to aid banking institutions in other communities to meet the necessities set forth above. Provided, however, That (1) every precaution shall be taken to prevent hoarding or the unnecessary withdrawal of currency; (2) No State banking institution shall engage in any transaction under this regulation which is in violation of State or Federal law or of any regulation issued thereunder; (3) No National banking association shall engage in any transaction under this section which is in violation of any Federal law or of any order or regulation issued by the Comptroller of the Currency; and (4) No gold or gold certificates shall be paid out. Each banking institution and its directors and officers will be held strictly accountable for faithful compliance with the spirit and purpose as well as the letter of this regulation.

Federal reserve banks may carry on such functions as may be necessary to facilitate transactions authorized by this regulation.

In order to enable member banks of the Federal reserve system to meet the needs of their respective communities to the extent authorized by this regulation Federal reserve banks may make advances to such member banks under the conditions set forth in Section 10 (b) of the Federal Reserve Act as amended by the act of March 9, 1933, and in accordance with authority granted by the Federal Reserve Board.

In addition, in order to enable individuals, partnerships and corporations to meet their immediate payroll requirements, Federal reserve banks may make temporary advances to such individuals, partnerships and corporations on their promissory notes secured by direct obligations of the United States in accordance with authority granted by the Federal Reserve Board. (As amended by supplementary order of March 10.)

11—The Secretary of the Treasury announces that any bank having a branch in a foreign country may deposit collateral in the United States to secure advances to such branch in a foreign country, provided such transaction does not involve any transfer of credit from the United States to a foreign country and any bank having a branch in an insular possession of the United States may deposit United States Government securities or other collateral for a similar purpose when under the President's Proclamation advances of local currency in the insular possession may lawfully be made.

12—Clearing house associations and other associations organized to provide an adequately secured medium of temporary exchange, are hereby permitted to issue certificates against sound assets of banking institutions, such certificate to be deliverable by each institution to its creditors and depositors on a pro rata basis, provided, however, that no such certificates shall be issued before Friday, March 10, 1933, without the consent of the Secretary of the Treasury addressed to the clearing house or other association proposing to issue such certificates, and further provided that this permission may be revoked in the event that a national plan to meet the existing emergency is proposed by the Secretary of the Treasury if in his opinion the success of such plan would be inconsistent with the operation of the certificate plan.

13—Any banking institution lawfully engaged in the business of acting as trustee, executor, administrator, registrar of stocks and bonds, transfer agent, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity may continue to transact such business in the normal and usual manner; provided that in the conduct of said business, except as may be permitted by other regulations of the Secretary of the Treasury, such banking institution shall not pay out or permit the withdrawal of coin or currency nor withdraw any trust or fiduciary funds on deposit with any other department of the bank.

14—Federal reserve banks are authorized to conduct their normal and usual operations as fiscal agents of the United States in transactions pertaining to the exchange of obligations of the United States, such as making exchange of denominations, exchanging coupon for registered bonds, and vice versa, receiving registered bonds for transfer and effecting C. P. D. transactions.

March 8

15—The permission granted in Regulation Number 7 that deposits heretofore received by any banking institution pursuant to agreement or legislative authority providing for segregation and repayment without restriction may be paid on demand, includes any bank in which any such deposits have been redeposited by or on behalf of the receiving bank in accordance with such agreement or legislative authority.

March 10

16—All banking institutions are hereby authorized to take such steps and carry through such transactions as may be necessary to complete for their own account, or the account of their customers, payment on any subscriptions for Treasury bills of the United States for which payment was due on March 6, 1933.

17—Any banking institution may, when the owners consent thereto, pay checks issued prior to March 6, 1933, and received in due course of business by the drawee banking institution, by charging the amounts thereof to the accounts of the drawers and crediting such amounts to the accounts of such owners on the books of the drawee banking institution.

March 11

18—All banking institutions are hereby authorized to subscribe and pay for any United States Government obligations which may be offered for subscription and sale by the Secretary of the Treasury. Federal Reserve Banks may carry on such functions as may be necessary to facilitate such transactions as are authorized by this regulation.

All Federal Reserve Banks are authorized to redeem matured obligations of the United States and to cash matured coupons provided no gold or gold certificates shall be paid out.

19—Except as otherwise prohibited by law, banking institutions may exercise their normal and usual functions in permitting substitution for or release of collateral held by them, provided other collateral or cash of equal or greater value is received in exchange therefor.

20—All Federal Reserve Banks and their Branches and Agencies may open March 13, 1933, and may remain open for the performance of all usual and normal banking functions except as prohibited by the Executive Order issued by the President on March 10, 1933, and any further orders or regulations hereafter issued.

21—Banking institutions which are not members of the Federal Reserve System or organized under the laws of the United States and which are not under the immediate supervision of any State authority may, on and after March 13, 1933, carry on their normal and usual functions, except as otherwise prohibited and except that no such institution shall pay out any gold coin, gold bullion or gold certificates, unless authorized by the Secretary of the Treasury, nor allow withdrawal of any currency for hoarding, nor engage in any transaction in foreign exchange except such as may be undertaken for legitimate and normal business requirements, for reasonable traveling and other personal requirements, and for fulfillment of contracts entered into prior to March 6, 1933.

All Federal land banks, Federal intermediate credit banks, joint stock land banks, Federal home loan banks, regional agricultural credit corporations and the Reconstruction Finance Corporation are hereby permitted to open at 9 o'clock, a. m., Monday, March 13, 1933, to perform their usual banking functions except to the extent prohibited by the executive order of the President of the United States, issued March 10, 1933, by Federal or State law, or as may hereafter be limited or prohibited by regulations promulgated by the Secretary of the Treasury.

This permission, as to each of the foregoing banking institutions, may be revoked in whole or in part by the Secretary of the Treasury at any time, and is granted as to each such institution upon the express condition that such institution shall deliver, within thirty days from the date hereof, to the Treasurer of the United States or to a Federal Reserve Bank or a Federal Reserve branch bank of the district in which it is located, all gold coin, gold bullion and gold certificates owned by it, and receive payment in credit or in other form of coin or in currency.

March 12

22—All Federal land banks, Federal intermediate credit banks, joint stock land banks, Federal home loan banks, Corporations organized under Section 25(a) of the Federal Reserve Act, regional agricultural credit corporations and the Reconstruction Finance Corporation are hereby permitted to open at 9 o'clock, a. m., Monday, March 13, 1933, to perform their usual banking functions except to the extent prohibited by the executive order of the President of the United States, issued March 10, 1933, by Federal or State law, or as may hereafter be limited or prohibited by regulations promulgated by the Secretary of the Treasury.

23—No banking institution shall permit any withdrawal by any person when such institution, acting in good faith, shall deem that the withdrawal is intended for hoarding. Any banking institution, before permitting the withdrawal of large or unusual amounts of currency, may require from the person requesting such withdrawal, a full statement under oath of the purpose for which the currency is requested.

24—All banking institutions may cash official drafts drawn upon the Secretary of State for payment of salaries, traveling and other contingent expenses but not for personal account, and remit the amounts thereof to the banks from which the drafts are received, provided that no gold or gold certificates shall be paid out.

March 13

25—Pending the determination by the Treasury Department of a suitable procedure for licensing the delivery of gold for use in trade, profession or art, Federal Reserve banks are hereby authorized to deliver upon request therefor gold in amounts deemed by such bank to be reasonably required for legitimate and customary uses in trade, profession or art, provided such request is accompanied by affidavit of the person requesting such gold stating the amount of unmanufactured gold on hand and the facts making it necessary to obtain such gold for the purpose of maintaining employment.

All banks licensed to open for usual and normal functions are permitted to carry out any transaction necessary to complete the delivery of any gold authorized by any Federal Reserve Bank to be delivered in accordance with such request.

26—All banking institutions may issue drafts transferring credits from any place in the United States to any other place in the United States and from any place in the United States to any place in a foreign country in connection with payments for domestic and foreign patent, trademark and design application fees, and in payment for domestic and foreign patent and trademark taxes and renewals. No gold or gold certificates shall be paid out, withdrawn, or exported under this regulation.

March 18

27—Any State banking institution which is a member of the Federal Reserve System and which is not licensed by the Secretary of the Treasury to reopen for the performance of usual banking functions may, with the approval of the appropriate State authority having immediate supervision of such banking institution, permit withdrawals by depositors and make payments to creditors of such percentage of the amounts due to them (not exceeding 5%) as it may determine, provided that at or before the time of such withdrawal or payment it shall set aside and make available for such purpose a fund for the benefit of and sufficient to pay to all depositors and creditors the percentage so determined.

This regulation shall not in any way affect any right created by Regulation No. 7 nor limit or restrict any payment thereby authorized.

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Provisions of the Emergency Banking Act

On March 9, within a few hours after it convened in extraordinary session, Congress passed an emergency measure giving the President control over all the banks. It is under the provisions of this act that the banks are now operating. Following is a summary of the provisions of this act, which is known as the Emergency Banking Act (Public Act No. 1, 73rd Congress).

■

THE preamble of the bill states: "That the Congress hereby declares that a serious emergency exists and that it is imperatively necessary speedily to put into effect remedies of uniform national application."

Section 1, provides that:

"The actions, regulations, rules, licenses, orders and proclamations heretofore or hereafter taken, promulgated, made or issued by the President of the United States or the Secretary of the Treasury since March 4, 1933, pursuant to the authority conferred by subdivision (b) of Section 5 of the Act of October 6, 1917, as amended, are hereby approved and confirmed."

Section 2 so amends the Act of October 6, 1917 (the wartime "Trading with the Enemy Act") as to give the President during a period of war "or any other national emergency declared by the President," power to "investigate, regulate or prohibit, by means of licenses, or otherwise, any transactions in foreign exchange, transfers of credit between or payments by banking institutions, as defined by the President, and export, hoarding, melting or earmarking of gold or silver coin or bullion or currency, by any person within the United States or any place subject to the jurisdiction thereof." In the execution of this authority the President is empowered to demand records, papers, etc.

Section 3 provides that whenever, in the judgment of the Secretary of the Treasury, such action is necessary to protect the currency system of the United States, the Secretary may, in his discretion, require all individuals, associations or corporations to deliver to the Treasurer of the United States all gold coin, gold bullion and gold certificates owned by them, to be paid for by the Secretary of the Treasury with an equivalent amount of any other form of coin or currency issued under the laws of the United States.

Section 4 provides that during an emergency period, no member bank of the Federal Reserve System shall transact any business except under express authority of the Secretary of the Treasury, with the approval of the President.

TITLE II

Section 201 (The first sections under this and subsequent titles begin at 201, 301 and 401 respectively) states that the title may be cited as the "Bank Conservation Act."

Section 202 defines a "bank" under the terms of the Act, as any national banking association and any bank or trust company located in the District of Columbia and operating under the supervision of the Comptroller of the Currency and the term "State" as any State, Territory or possession of the United States and the Canal Zone.

Section 203, which creates "bank conservators" reads as follows:

Whenever he shall deem it necessary in order to conserve the assets of any bank for the benefit of the depositors and other creditors thereof, the Comptroller of the Currency may appoint a conservator for such bank and require of him such bond and security as the Comptroller of the Currency deems proper. The conservator, under the direction of the Comptroller, shall take possession of the books, records, and assets of every description of such bank, and take such action as may be necessary to conserve the assets of such bank pending further disposition of its business as provided by law. Such conservator shall have all the rights, powers, and privileges now possessed by or hereafter given receivers of insolvent national banks and shall be subject to the obligations and penalties, not inconsistent with the provisions of this title, to which receivers are now or may hereafter become subject. During the time that such conservator remains in possession of such bank, the rights of all parties with respect thereto shall, subject to the other provisions of this title, be the same as if a receiver had been appointed therefor. All expenses of any such conservatorship shall be paid out of the assets of such bank and shall be a lien thereon which shall be prior to any other lien provided by this Act or otherwise. The conservator shall receive as salary an amount no greater than that paid to employees of the Federal Government for similar services.

Sections 204 and 205 provide for examinations of banks by the Comptroller of the Currency and give him authority to withdraw the conservator when he deems the bank in proper condition.

Section 206 authorizes the Comptroller to direct the conservator, while he is in charge of a bank, to set aside deposits and render them available for withdrawal by depositors in such ratable amounts as the Comptroller may designate; authorize the Comptroller to direct the conservator to receive new deposits, but provides that such new deposits shall not be subject to any limitation as to payment or withdrawal nor to be used to liquidate any indebtedness of the bank existing at the time the conservator takes charge. These deposits may be kept on hand in cash, invested in direct obligations of the United States or deposited in Federal Reserve Banks under a special account.

Section 207 provides that the Comptroller of the Currency shall pass upon the reorganization of any national banking association to see that the law is complied with

and that the interests of the stockholders and the public are protected.

Section 208 provides that when a conservator turns the affairs of a bank to its officers he shall give public notice to that effect and inform the depositors that fifteen days after that date their segregated new deposits are to be placed to the regular deposits of the bank.

Sections 209, 210 and 211 cover general administration regulations for the Comptroller of the Currency of the Conservators.

TITLE III

Section 301 permits existing banking associations, with the approval of the Comptroller of the Currency, and by a vote of shareholders owning a majority of stock to issue preferred stock, but provides that newly organized banking associations may not issue preferred stock until the par value of all stock is paid in.

Section 302 provides that holders of such preferred stock shall be entitled to accumulative dividends of not more than 6 per cent; shall not be held liable for the debts of the association nor for assessments and shall have voting rights. The preferred stock may be retired under provisions set forth by the association and approved by the Comptroller of the Currency. No dividends shall be paid on common stock until the cumulative dividends of the preferred stock are paid in full. In the event the association is placed in voluntary liquidation no payments shall be made to holders of common stock until the holders of preferred stock are paid in full par value of their preferred stock, plus all accumulated dividends.

Section 303 defines terms used in the Act.

Section 304 makes available funds of the Reconstruction Finance Corporation for use by national and state banking associations for capital purposes, if, in the opinion of the Secretary of the Treasury they are in need of them.

TITLE IV

Section 401 amends the sixth paragraph of Section 18 of the Federal Reserve Act to provide for the issue of additional currency as follows:

"Upon the deposit with the Treasurer of the United States, (a) of any direct obligations of the United States or (b) of any notes, drafts, bills of exchange, or bankers' acceptances acquired under the provisions of this Act, any Federal reserve bank making such deposit in the manner prescribed by the Secretary of the Treasury shall be entitled to receive from the Comptroller of the Currency circulating notes in blank, duly registered and countersigned. When such circulating notes are issued against the security of obligations of the United States, the amount of such circulating notes shall be equal to the face value of the direct obligations of the United States so deposited as security; and, when issued against the security of notes, drafts, bills of exchange and bankers' acceptances acquired under the provisions of this Act, the amount thereof shall be equal to not more than 90 per cent of the estimated value of such notes, drafts, bills of exchange and bankers' acceptances so deposited as security. Such notes shall be the obligations of the Federal reserve bank procuring the same, shall be in form prescribed by the Secretary of the Treasury, shall be receivable at par in all parts of the United States for the same purposes as are national bank notes, and shall be redeemable in lawful money of the United States on presentation at the United States Treasury or at the bank of issue. The Secretary of the Treasury is authorized and empowered to prescribe regulations governing the issuance, redemption, replacement, retirement and destruction of such circulating notes and the release and substitution of security therefor. Such circulating notes shall be subject to the same tax as is provided by law for the circulating notes of national banks secured by 2 per cent bonds of the United States. No such circulating notes shall be issued under this paragraph after the President has declared by proclamation that the emergency recognized by the President by proclamation of March 6, 1933, has terminated, unless such circulating notes are secured by deposits of bonds of the United States bearing the circulation privilege."

Section 402 amends Section 10 (b) of the Federal Reserve Act to permit a Federal Reserve bank, "in exceptional and exigent circumstances" and when any member bank is without available assets to obtain credit, to make advances to such bank on time or demand notes bearing 1 per cent interest. The provisions of this section are operative until March 3, 1934, or one year thereafter, if prescribed by the President.

Section 403 authorizes Federal Reserve banks, with the approval of the Federal Reserve Board, to make advances to individuals, partnerships or corporations on promissory notes for periods not exceeding 90 days, the interest rates to be fixed by the Federal Reserve banks with the approval of the Board.

TITLE V

Section 501 appropriates $2,000,000 to carry out the purpose of the act. Section 502 provides that if any provision of the Act is held invalid the other provisions shall not be affected thereby.

Treasury Regulations *Cont'd*

Any right to authorize withdrawals or payments under the terms of this regulation shall terminate upon the appointment of any conservator, receiver or other appropriate State official taking charge of the affairs of such banking institutions.

28—After the close of business on March 18, 1933, Treasury Regulation No. 6 and Treasury Regulation No. 10, as amended, shall be without force or effect to authorize any banking transaction therein referred to.

A Glossary of Banking Terms

Branch Bank—A bank operating one or more branch offices which perform functions similar to those of the parent bank is engaged in branch banking. Branch managers are generally given limited discretionary powers in extending credit. Liabilities incurred by the branch are liabilities of the parent bank. National banks are not permitted to establish branches, and in a number of States branch banking is prohibited by the State banking code. In some States banks are permitted to establish branches located only in the home city of the parent bank, in others only within the county of the parent bank, while several States permit State-wide branches.

Chain Banks—A number of banks owned or controlled by the same individual or group of individuals. Chain bank systems have usually prevailed in rural districts.

Investment Bank—The investment bank undertakes to raise funds to provide for the fixed capital requirements of enterprises. The investment banker deals principally in stocks and bonds as distinguished from the short-term bills on which the commercial banker extends credit.

National Bank—A bank incorporated under the National Bank Act, primarily as a commercial bank of deposits and discount. It is authorized to issue national bank notes secured by a deposit of United States bonds. It is subject to general supervision and examination by the Comptroller of the Currency, and is required to report its condition on call to the Comptroller. Under the Federal Reserve Act its functions have been extended. The Federal Reserve Board may approve applications of national banks for permission to exercise fiduciary powers as trustee executor, administrator, or in any other fiduciary capacity in which competing State banks, trust companies, or other corporations are permitted to act under State laws. National banks may also receive time deposits, and to this extent they function as savings banks.

Savings Bank—A bank organized to receive deposits under special conditions reserving to the bank the right to demand notice of withdrawal for a specified period in advance. In the older eastern States a savings bank is understood to be a "mutual savings bank," organized without capital stock. Outside of this territory with few exceptions "savings banks" are stock corporations, and in some States there is not much distinction between savings banks and other banks. Deposits are not subject to checking out, but can be withdrawn only by production of the depositor's pass book in which proper entries are made. Savings banks operate under special provisions as to reserves and as to securities eligible for investment of their resources. Since their liabilities are not strictly demand obligations they are permitted to operate on a lower reserve ratio, and to invest more freely than commercial banks in securities of long maturity.

State Bank—A bank chartered under State laws, and subject to supervision and examination by a State banking department. Its powers and functions are defined in the State Banking Code. While the scope of its activities is in some States much more comprehensive than that of a national bank, the principal distinguishing characteristic must be found in the agencies of corporation, supervision, and examination.

Trust Company—Trust companies are incorporated under State laws. At the present time they very commonly engage in a general banking business, including commercial, savings, and investment banking. They act as trustees or agents for individuals or corporations and exercise the fiduciary powers noted under "national bank."

Unit Bank—A bank operating without branches, whose "principal" place of business is, therefore, its only place of business, and in a number of States the only place in which the bank may legitimately transact any of its business, is engaged in unit banking, and this characteristic of the unit bank distinguishes unit banking, which is very generally practiced in the United States from branch banking which is almost universal in other commercial countries.

Bank Examiner—An officer whose function it is to examine banks and report on their condition, in the case of national banks, for example, to the Comptroller of the Currency, and in the case of State banks to the proper State banking authorities.

Federal Reserve Bank Note—Notes issued by Federal Reserve Banks under provisions of the Federal Reserve Act. They are similar to national bank notes in that they are secured by United States bonds. The amount outstanding is relatively inconsiderable.

Federal Reserve Note—A currency note issued by a Federal Reserve Bank secured by a deposit of collateral in the form of eligible commercial paper, or gold, or gold certificates, with a Federal Reserve agent. These notes are Government obligations and a paramount lien on all the assets of the bank.

Holding Company—A company the business of which is to own the stocks or securities of other companies, the interest or dividends upon which constitute the income of the holding company.

National Bank Note—A currency note secured by a deposit of United States bonds with the Treasurer of the United States, issued by a national bank under provisions of the National Bank Act.

Security Affiliate—This term is used to describe a company formed by banking organizations to deal in securities of various types, some of which may not, under the Federal banking laws or state banking laws, be dealt with by a bank. The proposal that has been presented to Congress is that these security companies, where owned by national banks or national bank associations shall, like national banks, be subject to the supervision of the Comptroller of the Currency.

PRO

Should America Adopt a[…]

The "Dual" System vs the […]
The Branch Ban[k]ing […]
Guaranty o[f] Ba[…]
Divorce o[f] A[…]

Hon. Carter Glass

After long investigation and inquiry, and after overcoming what I at one time regarded as an insuperable objection, or I might say prejudice, against branch banking, it is my personal judgment that it is about the only remedy now for the menacing situation which faces the banking community of the United States.

We have been taught to believe that there is a vast deal of difference between chain banking and group banking through holding companies. We have been taught to believe that the operations of what is known as a branch bank relate themselves directly to all the responsibilities and availabilities of the parent bank, including the double liability of stockholders; that is to say, if a parent bank in any given town of any State, authorizing branch banking under the national system, establishes a branch in another town of that State, it is responsible, through its stockholders and managerial officers, for all the actions of that branch; and should the branch incur losses the parent bank must make them good, with full knowledge that the stockholders of the parent bank will incur the double liability in case of failure to do so. That is not true.

If the stockholder of one national bank is likewise a stockholder of another such bank, of course, he has a double liability in each institution; but that is not the chain banking system nor is it the group banking system. For that reason, in the bill, which I have introduced, we have provided that if the chain and group banking systems shall persist they must incur a double liability or go out of existence. So those who are experienced in banking will differentiate the branch banking system and the chain and group banking systems in many respects; and, if they are discerning critics, they will tell you that both the group and chain banking systems, if not positively vicious, unless extremely and cautiously managed, are a menace to the credit system of any State in which they may be established.

The laws and regulations of the comptroller's office in Washington have not been enforced now for nearly two years; and the office dare not enforce them now because even the best informed may not accurately conjecture what would be the result.

So many of the banks have their portfolios choked with immobile and in many instances worthless investment securities; so many of the banks have been compelled to discard caution in order to accommodate commerce and industry; so many of the banks have failed and are now failing to write off their books losses incurred and worthless accounts, that the office of the Comptroller of the Currency has been compelled almost to close its eyes to the situation.

There have occurred in these five days of January 28 bank failures—3 of them national banks and 25 State banks. There occurred in the month of December 145 bank failures, of which 19 were national banks and 126 were State banks.

I know how popular is the plea for the little bank. But when I tell you of the nearly 11,000 banks that have failed in recent years, 80 per cent of them were banks whose capitalization did not exceed $25,000, you may have some conception of the menace they are to sound banking and the curse to their depositors. They are, largely, pawnshops set up over the country, miscalled banks, and have toppled over like tenpins in a bowling alley at every disturbance of business. Yet there are Senators who want to perpetuate that sort of thing.

I had an expert investigation made, through official sources, of the banking conditions in every State of this Union with a view to ascertaining, if it could be done, what would be the effect of a wise system of branch banking upon the existing situation. The official declaration of these seasoned, expert bank examiners is to the effect that unless the Congress shall adopt a wise system of branch banking we may with some degree of certainty expect the failure of as many as 470 banks within a short while. I have them here by States—banks which they attest may be saved from failure within a short period if permitted to be taken over by strong banks, capable of supplying sufficient capital to minister to the commercial and industrial wants of the community.

I have the statement from the comptroller's office that there are literally thousands of communities throughout this country absolutely destitute of banking facilities because of bank failures, which communities might readily be supplied by strong banks in the respective States either taking over existing banks or establishing branches of the parent bank.

I repeat what I so often have said as a challenge to those who talk about "the little bank"—that topples over and creates a psychology that eventually topples over the larger and sounder banks because of the fear created in the minds of depositors and the runs that ensue. In the 32 years I have served on the Banking and Currency Committees of the House and of the Senate I have never known a merchant, a business man, a manufacturer, any man who wanted credit at a bank, to object to a sound branch banking system.

Monopoly! Who are the monopolists? These little pawnshops that want to monopolize the credit facilities of their own communities. They are the monopolists. They want to erect by law a tariff wall, as it were, against credit facilities coming into their territory and loaning the business men, the merchants, and manufacturers credit upon reasonable terms of interest.—*Extracts,* *see 1, p. 128.*

ot a Unified Banking System?

CON

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h Banking Controversy

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orce of Affiliates

Hon. Sam G. Bratton

UNDER existing law, a national bank may engage in branch banking if the law of the State in which the bank is situated permits State banks to do so. There are certain limitations, namely, that no branch bank shall be established within the limits of any city, town, or village in which the population by the last decennial census was less than 25,000. No more than one such bank may be thus established where the population, so determined, of such municipal unit does not exceed 50,000, and not more than two such branches where the population does not exceed 100,000. In any such municipal unit where the population exceeds a hundred thousand, the determination of the number of branches shall be within the discretion of the Comptroller of the Currency.

National banks may engage in branch banking under existing law subject to those limitations, but in the Glass bill it is proposed to go a step further. It is proposed to permit national banks to engage in branch banking whether the law of the State in which a given bank is located permits it or not. It is proposed now to permit national banks to disregard the sentiment of a given State with respect to that question.

I think the proposed bill goes too far. It seems to me that the question of whether branch banking shall be permitted in a given State should be determined by that State.

I believe that one of the major contributing causes to the difficulty in which we find ourselves is the accumulation, the concentration of too much wealth in too few hands. It is not a sudden condition; it is not one consequent upon developments in the last few months or the last few years. It is a crystallization of a definite movement covering many years.

We have reached a condition where a half dozen Americans could, whether through fear or otherwise, close their purse strings and involve the whole country in a panic. That is not a wholesome condition. We should undertake to stem the tide. We should endeavor to minimize it. But instead of doing that, it is proposed now that we authorize the national-bank system of the country to take a step further than we have ever gone before. We are asked to permit national banks, in disregard of State laws, overriding the sentiment of a State, to engage in branch banking whether it is desired in the State or not.

It is easily conceivable that if we go that far, in the course of 10 years or less, three or four powerful banking institutions may control the banking system of the country. If in the system lurks the danger I apprehend, its effect upon the country can not be exaggerated too greatly. Are we willing that three or four powerful organizations, three or four powerful groups of men, three or four powerful groups of money may control the banking facilities of the country? If so, the enactment of the Glass bill will contribute to that end.

The danger can not be unduly exaggerated or easily overstated. We should move with caution before we increase one iota the concentration of power over the financial resources of this country in too few hands.

Many banks throughout the country have their coffers filled with currency today and will not make loans. They are not extending credit because properties tendered for collateral are not deemed to be valuable for that purpose. There is much to be said in justification of that attitude on the part of the banker. If a piece of land is of little value he can not afford to lend much money on it.

If a residence in town is of slight value he can ill afford to extend much credit to the owner of it. But extending the branch system of national banks will not increase the value of the farm nor the value of the home in the town. On the contrary it simply contracts, at least it makes it possible to contract into a narrower channel complete control over the financial system of the country. In my opinion, it is a step in the wrong direction.—*Extracts, see 2, p. 128.*

Hon. Henrik Shipstead

IT has been said that if the bill with the branch-banking feature should be enacted into law, it would prevent the closing of banks, for if the "strong" banks could have branches they would take over the weaker banks and the small banks, leaving the implication that the small banks are the banks that have been badly managed and are the ones that are in trouble.

When those holding that view are asked whether the strong banks will take over all the weaker and smaller banks they become very indefinite. When they are asked whether or not it is intended to take over a few and to let the remainder go they are also very indefinite. I have

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PRO

Thomas W. Lamont

At best, progress in banking reform is a slow business. It took forty years, following the almost complete breakdown of banking in 1873 before the country was able to evolve the Federal Reserve act of 1913. Now we have our strong Federal Reserve System. Yet what our average citizen very naturally fails to understand is why, if the Federal Reserve has such manifest virtues, it is unable to prevent the terrific crop of banking failures which the country has witnessed in the last decade—and especially in the last two years. The answer is, upon proper analysis, not difficult to find. But before we attempt to give it let us look at some of the figures of banking failures in the eleven years, 1921-31.

In that period there have been total bank failures aggregating 9,285, with deposits thus tied up or in part dissipated of $4,278,000,000. Of this total only 1,698 banks were members of the Federal Reserve and almost four and a half times as many, namely 7,587 banks, were outside the system. In the years 1930-31 alone the bank failures totaled 3,643, and here again the proportion of non-member to member banks was almost as four and a half to one. It should be added that the most of these failures were of small banks, with extremely limited capital. Therefore, one should not be misled by these figures, bad as they are, into thinking that more than a small percentage of the country's banking resources was ever tied up in failure.

When we study the quoted figures we see at once where the leakage, so to speak, comes in. The supervision which the Federal Reserve Banks are able to exercise over member banks is of course limited. But over non-member banks the Federal Reserve has no control whatsoever. These non-member banks are without exception State institutions, subject to greatly varying degrees and kinds of legislative requirements and of administrative supervision. So that it is no wonder that objective students of our banking system are bewildered and declare it—despite the existence of the Federal Reserve—to be no system at all.

In many instances the paid-in capital of our country banks is so slight as to be subject to impairment under the most ordinary conditions of difficult times, as we have been ample witness in recent years. It is a noteworthy fact that in number, 90 per cent of the banks which failed in the decade of 1921-1930 were located in rural communities, subject to all the vicissitudes of crop failures, or of the expansion and deflation of business "booms"; without any of the protection afforded by a parent institution fortified with ample capital and managed by experienced men.

There is a strong movement today looking toward some plan permitting branch banking on an extensive scale. Only eight or nine of our States permit State-wide branch banking within their confines. A few other States permit it, but within much more limited areas. Hence branch banking as a system, as developed so successfully in Great Britain, on the Continent of Europe and in Canada (where in each case there is an almost entire absence of banking failures) has had only limited chance of development in this country.

Almost all the failures in 1932 of small suburban banks around Chicago and almost all the resultant threats to the general banking situation could have been avoided if it had not been for the fact that the Illinois statutes permit no branch banking of any kind within the limits of the State. It was quite impossible under the law for the large Chicago banks to attempt to serve, through branches, the important suburbs around the city. The lessons of such a situation must be glaringly obvious to the whole country. Despite the development of successful chain banking in a few scattered instances, there is no present effective method under the law by which strong institutions in our leading financial centres can extend the benefit of their ample reserves, their experience and ordinarily careful management to the weaker banks in the outlying districts.

Although there have occurred, especially in the last two years, striking instances of mismanagement on the part of sizable institutions located in large cities, yet that melancholy phenomenon is nothing like so common as in the country banks. These well-known weaknesses that, as I have been pointing out, afflict our rural institutions, almost inevitably lead in a time of fear such as came upon our American communities in the Autumn of 1931, to hoarding on a grand scale.

The need in 1931 was not for currency, but for credit aid. The difficulty was, however, that with the extraordinary deflation in the values of commodities and securities, upon which banking credit has normally been largely based, sound credit risks were in large measure unavailable for the banks. Even with the large sums demanded for currency purposes, there has never been a time when the facilities of the Federal Reserve Banks and of the bulk of the institutions within the system have not been more than ample to meet all legitimate credit needs.

Our chief difficulty, then, as must be seen, has clearly been, not lack of more extended State control, but rather failure of organization and coordination. I have already spoken of the confusion resulting from our varying Federal and State banking laws. In banking, our country has forty-nine different sovereigns. And, as many persons long ago pointed out, a constant state of competition exists between the Comptroller of the Currency at Washington and the forty-eight banking superintendents of our forty-eight States. Each one of these forty-nine officials is desirous of having as many institutions as possible registered under his jurisdiction. The consequence is that, because of this competition, laxity creeps in.

The competition as among the various systems has not been such as to make banking requirements more conservative but to make them more liberal. A promotion not of better banking but of poorer banking has been the inevitable result. This competition has not only found expression in liberalization of the respective legislative requirements governing the various banking systems, but it has also resulted, as I say, in administrative laxity in granting charters and in providing adequate supervision of the conduct of banks.

As to methods of curing our troubles, Congress can spend hundreds of thousands of dollars in new hearings and publish volumes of testimony. But it need have no hope of ever coming to the root of the evil until it realizes that no banking system can function adequately when it comprehends within it only a limited portion of the bank-

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Shipstead *Cont'd*

not been able to get anyone to assure me if the bill should pass containing the branch-banking privilege that the so-called "strong" banks would take over the so-called weaker banks that we are called upon to save. It leaves the implication that it is only the small banks that have been in trouble; but the record of the loans made by the Reconstruction Finance Corporation shows that there has been more money loaned by the Reconstruction Finance Corporation to the strong or large banks than has been loaned to small banks, indicating that the large banks have been having greater difficulty than have the small banks.

The record also shows that there has been more money lost to depositors in the United States by branch-bank systems closing than there has been lost to depositors by unit banks closing. We have too great respect for big things. We seem to think because a bank is big it is therefore strong and safe. There is no justification for this.

It has been said that the reason banks are in trouble is because their securities have depreciated in value; that the general descending price level of the country has affected the securities in the portfolios of the banks.

It has been said that if we had branch banking we would have had no closure of banks. Does anyone mean to say that if we give the privilege to the national banks of operating branches that will raise the value of the bonds in their bond pouches?

It has been said there have been no failures in Canada because the branch-bank system is in operation there; but Senators do not forget that Canada has had branch banks for a great many years and that many years ago there were tremendous bank failures in Canada. They made their mistake; they learned a terrible lesson; and they paid the price. If the portfolios of the banks of the United States contained such securities as are shown to be contained in the portfolios of the banks of Canada, we would not be talking about a bank reform bill.

We find that the only investments the banks of Canada hold are securities of the Canadian National Government, the securities of the provincial governments of Canada, and of the municipalities of Canada. Those are securities behind which is the taxing power of the Canadian National Government and of the Provinces and municipalities of Canada.

There is a principle involved here that is a fundamental of banking, and that is that bank funds are short-term funds, and it is dangerous to invest short-term funds in long-term loans. The long-term loans come within an entirely different sphere of finance. When a bank loans money on collateral, making the borrower put up collateral with plenty of margin for safety, the bank runs no risk. The borrower carries the risk.

If, for instance, I loan my neighbor $50 for 30 days and he loans that money on an automobile for three years, how can he pay me back my $50 at the time it is due?

To illustrate: New York bankers shipped $800,000,000 of short-term loans to Europe, to England, and to the Continent. England shipped short-term loans to the Continent, some of their own and some that they had gotten from the United States. The Continent converted them into long-term paper, and when they could not remit when due the crash came. They could not pay back at the time when they were due. They could not liquidate long-term paper in order to pay the call money or the short-term paper. Then we had the moratorium, costing the American taxpayers $250,000,000, because short-term funds had been converted into long-term credits.

That is the secret of Canada's lack of bank failures. They know the difference between short and long term loans.

England has the same policy. Several British bankers told me that British banks did not buy securities. They said, "We are in the banking business. We loan money on collateral." They said, "We let the borrower take the risk. We do not buy investments on which we loan money, because we think it unethical for a banker to loan money on a security in which he is personally financially interested." That explains the lack of bank failures in Canada—not because they have branch banks, but because they have bankers who know they handle other people's money for safety not speculation.

I am of the opinion that the business men and farmers of the United States would be far better off if they had not been able to borrow quite so much money during our period of inflation of credit. That was creating debts in a cheap dollar to be paid in a dear dollar. I do not consider that that was good banking at all. It was not even good citizenship, and has a great deal to do with the terrible condition in which we now find ourselves.

Our bankers had the idea that the Federal reserve system and the banks of the United States could be used to finance the entire world, and our banking system was made the foundation for carrying the credit and the debts of the world for banking purposes, and we have to pay the price for that, too.—*Extracts, see 3, p. 128.*

Felix M. McWhirter

Much American history has been written around stormy conflicts concerning the degree to which it is prudent and consistent with national traditions to permit the concentration of financial power in the hands of a few in the United States. More such history now appears to be in the making. Once again, different men, adhering to different schools of banking and political principles, are reaching sharply conflicting conclusions on this subject.

Branch banking has been freely discussed in recent years. Further extension of branch banking under national and state banking laws has been proposed in varying degrees. Most of the discussion has been admirably temperate, considering the stakes involved. It has been so because those urging one view have respected the right of others not only to hold a different view but also to enjoy freedom of action in governing their affairs accordingly.

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PRO

Lamont *Cont'd*

ing community. Today 60 per cent in number of the country's banks are outside the strong Federal Reserve System, and this 60 per cent comprises a total in banking resources of over $12,000,000,000. These lesser banking institutions—whose aggregate resources are nevertheless so considerable—are unable or unwilling to come under the rules of the Federal Reserve System.

The fact is that, despite the melancholy number of eliminations that has taken place, the country has today far too many banks. Our banking units should on the average be far larger than they are today. The small, ill-capitalized institutions should be merged so as to gain the normal stability, diversity, economy and management of the larger concerns.

I repeat what many others have already pointed out, namely, that no thoroughgoing banking reforms can be brought about until two vital changes have been accomplished. The first is to bring all the commercial banks of the country, small as well as large, under the single aegis of the Federal Reserve System. The second is to establish sensible provisions for regional branch-banking, the geographical limits for each region to be carefully worked out and regulated. Then we should have something worth talking about. Such reforms, brought about gradually, ought to begin to yield to the country some measure of banking stability.

There are many phases of the banking situation that of course I have not attempted to touch upon. From even this brief review, however, it must be apparent that the development of banking in America has been a gradual process of evolution which has by no means reached its end. Each of the banking crises to which I have alluded has taught the community some one lesson, but each new disaster has revealed a fresh weakness to be remedied. Indeed, banking development in this country has been a slow and painful growth. No pilgrim's progress could have been more arduous or beset with greater pitfalls.

The hope for progress toward real orderliness and stability lies, as it always does in these matters, in an aroused and intelligent public opinion, and in constant study by the experts of methods to strengthen the Federal Reserve System. No person of intelligence, studying the actual workings of this system, can have failed to be impressed with the immeasurable benefits which it has brought to American industry and commerce. It is hard, too, to see how the government could ever have carried on its war and post-war financing without the new system. Without it, inflation on an almost disastrous scale (witness the examples of the European countries) might well have been resorted to. In the midst of the distress through which portions of the banking community have been passing in these last few years, the constructive accomplishments of our Federal Reserve Banks may have been somewhat lost sight of. Yet without the resources and the prudent, far-sighted handling of those institutions our plight would have been incalculably worse than it has been. All twelve of them have been like isles of safety, harbors of refuge in the midst of a violent storm.

Let me point out one recent development of the Federal Reserve System that has already proved of immense importance. Up to February of 1932, the system still lacked, under the law, certain powers that it needed to render its scope of operation more elastic and practicable. Such powers the Central banks of other countries have always possessed. Through the provisions of the Glass-Steagall law, passed early in 1932, somewhat similar powers were provided for the Federal Reserve System. Under these the system now has the authority to buttress the credit situation where there is the greatest need. Already these extended powers have enabled the system to lighten immeasurably the burdens of the community.

Aided by the provisions of this act the Federal Reserve Banks have been pursuing with wisdom and vigor a so-called open market policy, which has already proved itself to be a great factor in arresting the headlong deflation of credit and prices which was becoming so disastrous.

Finally, it has been the Federal Reserve System, and the wise conduct of it under the leadership of the Federal Reserve Board at Washington, and of the twelve regional banks, that have maintained impregnable for our country the sound, gold standard dollar. Remember this: among all the alarms and excursions of the last twelve-months we have never been near the point of abandoning the gold standard. Nothing can or will drive us from that standard. A Democratic administration, just like the steadfast Republican one before it, will continue to uphold the complete integrity of it. Make no mistake: in a dark and troublous world America and the American dollar are, as to material factors, the safest things in all the world to tie to.—*Extracts, see 4, p. 128.*

Owen D. Young

I WOULD say that all commercial deposit banking in the United States should be carried on under one law, that examination of banks and their controls should be under one authority. Their reserves should be mobilized in the Federal reserve system. Then we could develop for the country as a whole a sound banking system, and definitely fix responsibility. That would mean that all banks of deposit, as distinguished from savings, should be national banks.

As it is now, banks are chartered both by the National Government and by each of the 48 States. They are in competition, each endeavoring to offer the most attractive charters and the most liberal laws, to say nothing of the liberality of administrative officials in interpreting the laws. The national banking act has to compete not only with the most conservative States but the most liberal ones. Consequently, there has been a constant tendency to liberalize banking laws and to weaken their administration. In such cases the argument is always made that it is desirable to liberalize the law so as to enable the banks to be of greater service to borrowers.

The first question always regarding banks doing a demand-deposit business should be the safety of the deposits and the ability of the bank to return them to de-

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McWhirter *Cont'd*

Now all that is changed. It hitherto has been proposed that branch banking should not be prevented from growing into the American banking structure by a process of easy evolution, if it could prove its necessity and worth under fair competitive conditions and without the artificial aid of political preference. While we were slow to extend branch banking to the extent authorized by earlier laws, few people objected to its natural growth under healthy conditions.

But now it is proposed to compel reorganization of our banking structure along branch lines by a process of coercion and political preference. Not by direct action—which would encounter constitutional and popular barriers—but by ingenious subterfuge, branch banking is one objective of a plan which would imperil, if not quickly snuff out, thousands of sturdy unit banking institutions. The fact that many of them are quite as old and sternly tested as the intriguing foreign theory to which they are expected unresistingly to give way is entirely ignored.

This change of front stirs into fresh conflict powerful forces which wisely had been subdued for half a century, almost forgotten amid unexampled national progress. And all because from the Glass bill—not passed by either house of Congress when this was written—was intentionally omitted any provision preserving equality of opportunity as between national and state banking institutions. The settled national policies of a dual banking system, state sovereignty, freedom of individual initiative, and resistance to a concentration of financial power in a few private hands, are pulled from the archives and once more made national issues.

The Glass bill would authorize any national banking association with capital of $500,000 or more to establish branches at any points within its state of domicile or within its business area up to 50 miles beyond state lines. Within that enlarged radius, the sky would be the limit: no restriction of such power to states granting state-chartered institutions even remotely similar powers; no check-rein upon branch bank expansion into territory already adequately served; no limitation to prevent branch banks from springing up on every corner like filling stations, and no respect for whether particular states choose to have branch banking within their borders. Nothing. Just that: branch banking whether a state wants it or not.

The reasons for this revolutionary proposal are not clear. The supposed benefits are less so. But the adverse effects, both immediate and progressively increasing, are plain. The state-chartered unit bank or trust company—and the unit national bank as well—would be given three choices. It could sell out to the highest bidding branch system at a price dictated by threat of ruinous competition. It could liquidate, either before or after wasting its depositors' resources in a futile struggle. Or it could scramble into the race for branches, a race certain from the start to go not to the swift, not to the strong, but only to the big, and ultimately to the biggest. And that in the United States of America! Could there be a more ironic addition to the program for George Washington's bicentennial?

Are such assumptions too harsh? Would every national bank enter the scramble for branches? Certainly not; but only a few would need to in order to bring about the most ominous concentration of financial power in history. Would every branch system ruthlessly stifle unit competition wherever encountered? Certainly not, but any branch system could do that within the law. Would Federal authorities countenance dog-eat-dog competition? Not openly, in any event. Probably not, even by intent. But their continued discrediting of state-chartered banks and trust companies—a discrediting which plainly has been a factor in the suspensions which they now view with such pious solicitude and for which they pull every political wire to legalize branch banking as a cure—makes anticipation of their attitude a matter of pure faith rather than of current observation. But, whatever their intent, what supervisory authority can hold out against tactics sanctioned by the letter of the law?

These are no idle fears. With human nature what it is, this proposed change is a direct threat against the dual banking system. Where laws provide loopholes, let alone open invitation for the acquisition of fabulous wealth and power irrespective of injury to the public interest, there will be men to seize such opportunities. It is not the condition of being big, but the process of getting big quickly, that yields large speculative profits. And the chance for quick profits inevitably attracts men eager to get while the getting is good. Give any blue-sky promoter with $500,000 the control of a national bank charter plus the comfortable sanctuary of the branch banking section of the Glass bill and the speculative wreckage piled up in a dozen other fields in recent years would be insignificant alongside the banking havoc he could wreak.—*Extracts, see 5, p. 128.*

Commercial and Financial Chronicle—Editorial

UNIT banking is peculiarly suited to the genius of the American people, to the democratic republican form of government which we have developed, to the nature of our business and industrial organization, to our social institutions, and to the individualism which is the foundation of our national progress.

The fundamental principles of banking are very simple. If these principles are observed, as they should be observed, not because of superimposed laws or regulations but because of what they derive from the nature of banking, no bank, whatever its size, should ever fail, even under the most trying conditions of general business. It is not necessary to elaborate on the conditions requisite for safety in the conduct of a bank. They are too primary for discussion and are beside the point here. They were known in ancient Rome, earlier in Greece, and still earlier in Babylon. The size of a bank should have and need have no relation to the liquidity of its position. We are prone

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Young *Cont'd*

positors instantly on request, unless they be time deposits. No thought of service to borrowers should be permitted to impair the safety and security of depositors. Banks of deposit are, after all, primarily custodians of liquid funds. Only such use of such funds should be permitted as may be consistent with the interests of the depositors.

In the early years of our Government, our business was largely done by currency moving from hand to hand. It was felt at that time, and properly so, that we should have a national and uniform currency. Consequently, Congress was given power to coin money and regulate the value thereof. This power was made effective as to paper money by the national bank act. Now our business is carried on mostly by transfers of bank deposits, currency forming only a small part of our money transfers. If control of our currency were necessary in the beginning by the Federal Government, control of our bank deposits by it now would seem desirable. We have transferred, either affirmatively or by acquiescence, many powers to the Federal Government which ought not to be there. I am bitterly opposed to the impairment of the rights of the States in their appropriate field. It does seem strange, however, that in the face of such gravitation toward Federal authority, we should have retained divided rather than unified power over our deposit banking system.

Except for the currency in our pockets, our banks of deposit hold the liquid capital of the people of the United States. The transfer of this capital from one of us to another, promptly and safely, should be facilitated. That means, however, that every bank of deposit is truly engaged in a national business. Its soundness and safety is of concern to our people everywhere. Our business of deposit banks is not local in character; it is, and should be, national. Therefore, in my judgment, it should be governed by the national law.

Now, I realize, that of the 24,000 banks of deposit doing business in the United States only about 7,000 of them are national banks and 17,000 are State banks. Under those circumstances, we probably can not hope, immediately at least, for the surrender by the States of their right to grant banking charters. Nor can we expect reincorporation rapidly of State banks under national charters. The practical question is, therefore, what, if anything, can we or should we do now? I think it would be highly desirable that all banks of deposit holding themselves out to the public to do a national or international business should be required to be members of the Federal reserve system, as national banks now are. This would at once mobilize all of our banking reserves into one central system, which is as it should be. In addition, I think the powers of examination by the reserve system of all member banks should be clear, and that it should have certain powers to see that banking practices inimical to the safety of depositors should not be indulged in by member banks.

That would mean that when the words "member of Federal reserve system" were put on a bank's window there would be, in fact, some such responsibility on the Federal reserve system as the public now assumes there is. Then, for the first time, we shall be able to fix responsibility somewhere for a sound banking system. It will not prevent bank failures—no law or system can do that—but it will, in my judgment, minimize them greatly. Even now membership in the Federal reserve system is apparently helpful to banking practice, because of the 7,000 banks which have failed in the last 10 years, 5 out of every 6, I am told, have been State banks not members the Federal reserve system.

I have spoken only of banks of deposit, as distinguished from banks for savings. I believe that banks for savings and for the administration of trusts or other special time funds should be State banks, and that these powers should not be included in national banking charters. The investment of savings deposits, which are withdrawable only after a specified notice, is quite a different kind of business from the handling of demand deposit assets. In my judgment it is undesirable to combine them in the same institution, because any bank having demand deposits can never invoke a time notice on savings. If it does, it stimulates quick withdrawals of demand deposits and postpones the savings deposits, which are the most sacred of all, to the least desirable assets of the bank—*Extracts, see 7, p. 128.*

Edmund Platt

Opposition to branch banking, as Senator Glass has said, always comes from bankers. The smaller bankers through such organizations as the State bank division of the American Bankers Association, are most vocal, but many big banks, particularly in Chicago, have also been opposed and not without reason. The little bank thinks of the big bank as desiring to gobble it up, but that is the last thing the big bank wants to do. There is more money and less responsibility in correspondence accounts.

Thomas W. Lamont's admirable address on November 18, 1932, before the Academy of Political Science may be said to signalize general recognition on the part of the financial district of New York and the big bankers that branch banking is inevitable and furnishes the only means of preventing bank failures by consolidating the smaller banks into units large enough to afford good management and necessary diversification—large enough also to join the Federal reserve system.

Meanwhile if the smaller bankers would look at the matter in a common-sense business way they would see in branch banking not a threat to their existence but the removal of unnatural and harmful legal restrictions that have for many years prevented a natural development of banking. Banks have been prevented by law from consolidating with each other unless located within the same municipal limits. They have been prevented by law from opening additional offices for the accommodation of their own customers, who in many places have moved to new neighorhoods across municipal lines, where competing

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CON

Editorial *Cont'd*

to place too great reliance on the power of numbers and associations, factors both good in themselves. One bank with many branches, we are told, is a stronger and more scientifically effective instrument for public service than a large number of unit banks. Yet great branch banks have failed in Canada, in Scotland, in England, and wherever the system has been developed.

Despite the banking troubles of the last decade there are any number of small banks more solid and safe to-day than some of the largest institutions whose assets are enormous but the base of whose pyramidal credits bears no proportional safe relation to the angle from the apex to the outermost corner of its square. There are banks of the unit type now existing in all our larger eastern cities, though some, sad to say, are seeking to depart from this type, which has withstood every crisis experienced by this country in more than a hundred years.

Safety lies neither in numbers nor in accumulation of assets. Safety is to be found only in sagacity and integrity of management. This has been proved for ages by the private or free bankers.

The Federal reserve system is a great bulwark of strength. But we can not be at all certain; we can even be reasonable doubtful that the Federal reserve system would function so effectively if every bank in the country could be compelled to become a member. There is always room for a large proportion of independence in every activity. Throughout all time society has derived its greatest benefits from forms of voluntary cooperation. It is the evidence of history that compulsory cooperation breeds disaster. Freedom is life, but regimentation is death, no matter what the field.

It is only reasonable that banks should be carefully supervised in the public interest, but this supervision and control should not be permitted to crush all liberty of action. It should be confined to insuring constant liquidity of banking position. Because national banks were too greatly curtailed in many respects, retarding their development in the direction of modern business evolution, the trust companies have grown in power, and good reason could be given why 60 per cent of the banks are outside the Federal reserve system.

The concept of a great centralized control may sound magical, but centralized control has brought ruin to many countries in Europe in times of crisis. Centralized control exercised by a few banks operating through many branches has never proved more effective than unit banking in this country. True, more than 9,000 banks failed in the United States in the last decade. The Bank of England abandoned the gold standard on September 21, 1931, and to-day the pound is now worth $3.21, though it should be worth $4.8665. And to-day the American dollar is worth 25.8 grains of gold.

Great Britain is a small island. The United States covers nearly 3,000,000 square miles. The rest of the world can furnish no examples which have any value for us in organizing or reorganizing our banking system.

Let it be admitted that there is much to be said in favor of branch banking, but when all is said that may be said it would not be difficult to prove that the suppression of unit banking in these United States would spell disaster. Let us never despise the day of small beginnings nor the virtue inherent in small things.—*Extracts, see 6, p. 128.*

Associated Independent Banks of America

THIS urge for branch banking and "unified banking," which means the ultimate overthrow of our present dual unit banking system composed of both State and national banks, that has for nearly a century financed the marvelous growth and development of our country, and the complete extinction of the State banking system with its 15,000 unit banks, its $42,000,000,000 of resources, and its 1,500,000 stockholders, comes from a comparatively few sources. Just at this time certain of the interests are by every possible means furthering the enactment of the branch banking section of the Glass bill, which would deprive the States of the right to prescribe to what extent branch banking may be carried on within their boundaries (notwithstanding the so-called Vandenberg amendment, a thoughtful reading of which reveals that it provides no protection whatever for existing banks), while others are ringing the changes on the safety of the English and Canadian branch banking systems and recommending them for adoption by our country.

Bank depositors are entitled to every possible consideration. Their interest is to see banks made safe places for their deposits and every reasonable corrective applied in our banking practices.

The question is to make our banks safe without violating the cardinal principles of our democratic form of government, and without turning over the bank deposits of the people to the uses and purposes of a few, instead of keeping them for the most part available for service in the self-realizing activities of that community life that has been the principal factor in the development of our country and in making it the richest and happiest nation on earth.

America is still America, and our people are not disposed to adopt the British, Canadian, or any other foreign system of banking, particularly since they know what would happen to our cherished American institutions should our promotion-minded brethren secure control of it.

We want no such centralization in our country. Decentralization is characteristic of America in every field of activity, and has unquestionably been one of the most important factors in its development.

It is true that bank failures seldom occur in these two countries; but it is also true that the banks are not subject to special governmental supervision or control as banks are in the United States, a weakness the dangers of which are incalculable. Without supervision, a wholly insolvent bank may remain open so long as it can meet the daily demands made upon it.

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Platt *Cont'd*

banks have frequently been organized. In sparsely settled agricultural neighbrohoods it has been necessary, in order to afford the people reasonable access to banking facilities, to organize banks with very small capital, $25,000 in the case of national banks and as low as $10,000 or even $5,000 in the case of State banks.

In the days of agricultural prosperity these small banks were organized in great numbers by promoters and land speculators, and even in some cases by safe companies who later sold their stock to the people of the localities—"unloaded" on the localities would be the proper term for many cases. It was evident to students of banking that this effort to do by very small independent corporations what other countries did by the more natural method of opening branches or additional offices of well-established, strong institutions was dangerous and would lead to serious trouble. Many of these small banks have now been closed, leaving in some sections of the country whole counties without banking facilities.

Even when agricultural prosperity returns, it will not be easy to interest capital again in such hazardous enterprises, and the only way by which these communities can obtain service is through branches, and the only way the depositors and stockholders of a larger number of existing small banks can achieve security is through the consolidation of their banks with each other, under the leadership of some of the larger banks of their territory. Branch-banking legislation will simpy remove the unnatural restrictions upon consolidations. It will mean greater opportunities for the smaller bankers, safer and better service to their communities.

The arguments of the small bankers who maintain opposition have been fully answered. For the most part, they are the same arguments that were used in the eighteen nineties, and some of them are too absurb to need answer. They have declared over and over again that branch banking gathers up the money from the rural districts where it is needed and sweeps it into the great cities. This is pure imagination with no facts whatever to support it. It presupposes that bankers are so foolish as to draw funds from neighborhoods where they are in demand at good rates of interest to loan them in neighborhoods where interest rates are low.

The facts with relation to the Canadian system and to branch banking in California and other States where it has had some development are exactly to the contrary. The Canadian banking system loans more money in the prairie Provinces of the West than the total deposits of the prairie Provinces amount to, something which our banking system can not do. Our banking fairly pushes money into the large cities and into Wall Street because the small banks have not sufficient loaning power to take care of the larger industries in their territory, which must, therefore, carry accounts in the large cities. Through larger loaning power, to be obtained by branch banking, they would be able to take care of much, if not all, of this business at home.

If branch banking is envitable, and will be, as Horace White said, "economical and profitable to all banks in both city and county," what should most concern the bankers, particularly the small bankers, is the matter of provision for proper safeguards. It should not be allowed to get into the hands of promoters and should not be allowed to run wild. The Glass bill, with the amendment already accepted providing that branches must be obtained by consolidation except where no banking facilities now exist and providing that branches must be approved by the Federal Reserve Board, does, in my opinion, provide adequate safeguards.—*Extracts, see 2, p. 128.*

Hon. Henry B. Steagall

It is urged by opponents of a depositors' guaranty law that several States have enacted laws for the insurance of depositors against loss and that these State statutes proved inadequate in periods of panic. But the fact remains that these State laws saved depositors in broken banks from losses of many millions of dollars. They prevented runs that would otherwise have closed hundreds of banks had the confidence caused by State guaranty laws been lacking. In the State of Nebraska, where a guaranty of deposits law was in force for nearly 20 years, depositors were protected from loss and confidence in the law was such that after one-third of the State banks had closed the total of deposits in the remaining State banks equaled that held by the banks of that State in the boom year of 1920. Until the constitutionality of the law and the sufficiency of the guaranty fund was attacked there were no runs on the banks insured under the State guaranty law, nor did fall in deposits show loss of confidence by the people of the State.

The State laws to insure bank depositors against loss from failed banks were pioneers in a new field. Because of bad banking, lax enforcement, and weak regulation, the guaranty funds finally proved insufficient to pay losses in a period of panic. The State depositors insurance laws pointed the way to a sound national insurance system. Such a guaranty fund sufficiently financed and properly administered will afford the security that depositors are justly entitled to, who put their faith and money in banks chartered under Federal laws.

Many State laws proved faulty in that they did not give to the State banking department the right to refuse bank charters where such charters should not be granted in the public interest. A sound banking system can only exist where the number of banks is limited to public needs. Banking is a quasi public business. The public interest should always be the first consideration in the granting of bank charters. The public has two prime interests in banks, the first is to provide a safe place for the people's money, the second is to provide a financial reservoir where money and credit may be obtained upon reasonable terms. Overbanking breeds bad banking, speculation and bankruptcy. No matter how sound and carefully drawn laws may be, they will not be effective in protecting the interests of depositors if bankers are permitted to violate their most important provisions.

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CON

Associated Independent Banks *Cont'd*

The large number of bank failures is the principal argument advanced by the proponents of branch banking. It is true that the number of failures is appalling. Banks of every type, both large and small, city banks and country banks, branch banks, chain banks, and group banks—all have failed alike; but an unbiased investigation of the causes of failures establishes beyond question that it is not in the least measure necessary to destroy our historic dual unit banking system in order to reduce failures to a minimum.

The causes of failures are too numerous to discuss in this letter, and only the principal cause will be referred to briefly, viz, the very much over-banked condition that has existed for many years.

In 1880 there was in the United States one bank for every 15,000 people and failures were a rarity. The number was increased through laxity on the part of Government banking authorities till in 1921 there was one bank for every 4,000 people. In some western States there was one for every 1,500 people, and in Montana there was one for every 750 people. Through failures, mergers, and consolidations the number has been reduced until now there is one bank for every 6,500 people.

It will only be necessary for Congress and the several States to enact legislation restricting the granting of bank charters to remove this, the greatest weakness of our present banking system.

How any informed person zealous for the common good can blink the facts and advocate federally imposed state-wide branch banking is beyond all comprehension. The simple truth is that the state-wide branch banking proposal in the Glass bill is not an end in itself. It is only a stepping-stone to centralized control of nation-wide branch banking. This is no time to take so radical a step.

The branch banking section should be entirely eliminated from the Glass bill, because it is based upon false reasoning; because only special interests are behind it; and because the American people realize that it is a wolf in sheep's clothing.—*Extracts, see 2, p. 128.*

A. L. Wiggins

All of us are familiar with the disaster that has attended all bank guaranty laws that have been passed by States of the United States, beginning with New York in 1829, the last being in South Dakota in 1915. All of those laws have failed to serve the purpose for which they were designed; all have been repealed except in the case of South Dakota, in which the bank-guaranty fund is bankrupt, and in the case of Mississippi, in which it is practically bankrupt and the State has been called upon to vote bonds to make good the guaranty which the fund failed to provide. In Nebraska, it has required an assessment on the banks for 10 years, from 1930 to 1940, of two-tenths of 1 per cent on their deposits in order to make good the gauaranty up to 1930.

The argument might be used, of course, that a State guaranty proposition is very different from a national guaranty proposition. There is this similarity, however, that even if we admit that the failure of the State guaranty fund was caused by local disasters and the argument might be put forth that a nation-wide guaranty would not be subject to local disturbances, at the same time in a world-wide depression, such as we have now, the same facts would prevail throughout the United States that prevailed throughout the individual States, that caused the bankruptcy of the fund in that State.

If the banks in an individual State have not been able to set up sufficient funds to guarantee deposits in that State, I do not see how the banks of all the States could set it up any better to guarantee the deposits in all of the States.

But the facts are that no fund has yet been accumulated in any bank guaranty plan that has been sufficient to take care of a major disaster.

I would like to make this point, that in calling on the banks to provide the money to guarantee the deposits of each other, on the face of it it requires a heavy expense and a heavy burden on the sound institution for the benefit of the weaker institution. That burden is not one of investment, but one of an expense; because any money paid into this guaranty fund could not in any sense be regarded as an investment of funds; but, on the other hand, is an expense. And in terms of the income of a bank, if it amounted to as much as the maximum provided under this bill, that cost would be a very heavy burden on almost any bank, even under good conditions. In a bank of a million dollars deposits, assuming that about half of their deposits were time and half were checking, the initial outlay would be something like $7,000 and the annual maximum that that bank might be called upon to pay would be approximately $3,500 per year. Now that in most cases is more than those banks are paying out in dividends and, in some cases, is more than those banks are earning under present conditions.

The fact that all banks would be equally safe, assuming that a guaranty fund provided safety, there would, of course, be no discrimination between banks, which in turn would encourage what I would term "wild-cat" management, taking the chances to make a profit and if they made a profit it would belong to the stockholders; if they busted the bank, the guaranty fund would pay the depositors, which I think would increase materially the number of failures that we might expect, once the bank guaranty fund began to operate.

No degree of supervision or superintendence will replace honest and sound management. You could remove a bad official, yes; but even under any reasonable laws supervising banks there would be plenty of opportunity for a banker to take chances and if he made money he would get by.

Guaranty of deposits would also remove the local responsibility of stockholders and directors to depositors. There are many banks to-day that are in a sound condition because the directors and stockholders have taken

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PRO

Steagall *Cont'd*

In Nebraska, the courts decreed that the banking department could not refuse charters. This decision denied to the State's officers an authority essential to the safety of banking and the security and sufficiency of the bank guaranty fund. During the war boom, hundreds of additional State banks were chartered, for which there was no economic use. Too many banks and too few bankers of ability and character destroyed the State guaranty of deposits laws. The depositors guaranty laws brought prosperity and strength to the State banks when properly administered and saved depositors from losses of millions of dollars. The State depository insurance laws were discredited and destroyed by those who should have been their staunchest defenders. Prudent management and Government supervision of themselves have not proven sufficient security for bank depositors in the past. This fact gives absolute warrant for additional legislation for the safety of depositors from losses in failed banks.

The constitutionality and soundness of a bank depositors' insurance law was established through the enactment and operation of the State laws. In the case of Shallenberger *v.* First State Bank of Nebraska, and Noble State Bank *v.* Haskell, reported in 219 U. S. 114, the United States Supreme Court sustained the State's right to require corporations engaged in banking to contribute a certain percentage to a fund for the protection of depositors who sustained losses because of the failure of insolvent banks. In a more recent case from Nebraska, Abie State Bank *v.* Weaver (282 U. S. 265), the Supreme Court again sustained the constitutionality of the Nebraska statute.

The inefficient examination, lax administration, and indiscriminate granting of charters in States that enacted guaranty laws furnish lessons of great value in the preparation of new legislation. The experience of States having guaranty laws shows that it is practicable and advisable to adopt a guaranty plan for the Nation.

The bill I introduced in the last Congress does not provide for a Government guaranty of deposits. The fund is to be raised by the banks. The initial fund—approximately $300,000,000—is to be derived entirely from earnings of the Federal reserve banks. These earnings in all fairness belong to the member banks of the Federal reserve system that pay the interest and supply the capital and deposits out of which the Federal reserve banks accumulate their earnings. Assessments upon deposits of banks sharing in the benefits of the fund are to bear the balance of the burden.

Any insurance plan is to be calculated on the cost covering a period of years. Experience shows that over any extended period total losses to depositors in the United States have not reached serious proportions. In a statement before the Committee on Banking and Currency the Comptroller of the Currency testified that the total losses to depositors in national banks and member banks from the enactment of the national bank law down to 1930 amounted to only $82,000,000. Since then the number of failures and deposits involved have been unprecedented. During the past 10 years 7,800 banks have failed, having deposits of $2,500,000,000. This is the worst period in history. Surely we shall not have another such experience.

But the fund established by my bill would be more than ample to have carried out the purpose contemplated over the last 10-year period. Surely if this be true we cannot doubt that it will be sufficient to meet the exigencies of the future.

We cannot work out the present situation without the use of banking facilities and banks cannot do their part without employing their deposits. They cannot employ deposits unless they can get them and they dare not employ them when they have them so long as there is constant danger of wholesale withdrawals.

The public welfare demands relief from these conditions. We must not fail to safeguard the Nation against a repetition of the disasters and distress resulting from bank failures during the past 10 years. It has brought ruin to banks, suffering to depositors, distress to the public, and destruction to business. The one sure method of prevention is protection to depositors. The principle is accepted as sound on every hand by the Government, by the public and by the banks themselves, The Government demands insurance when its funds are intrusted to a bank. Banks require bonds of employees for protection against dishonesty. The public invests in life insurance, in fire insurance, in the insurance of crops. Citizens insure themselves against their own negligence. Banks constantly protect particular deposits when such protection is required. Common sense and simple fairness suggest that the public at large be accorded the same consideration. It is argued by some that the proposed guaranty plan would require well-managed banks to bear a portion of the losses from mismanagement in other banks, This argument is too shallow and shortsighted to merit serious consideration. There can be no separation of the interest of banks. The little bank is interested in the large bank and the large bank is interested in the little bank. Our banking structure is one building. Any disaster coming upon one is a serious cause for the concern of all. Any bank that carries burglary insurance helps to pay for any burglary that may occur in the United States. Any bank that pays for insurance against dishonesty of one of its officials contributes to the protection of any bank the funds of which are stolen by an employee. Bankers now universally approve the Federal reserve act, though they vigorously opposed its passage, just as some of them now oppose all suggestions for a guaranty plan for deposits. But the Federal reserve act requires national banks to become members of the system to invest stock in the capital of Federal reserve banks upon which decreased returns are received and requires national banks to maintain deposits with Federal reserve banks without interest. Bankers have learned that the system has brought a vast improvement in banking and great enhancement of the public welfare. Of course, there are some banks that could operate all right without the Federal reserve system just as some banks may still be able to operate all right without guaranty of deposits. But no one would again give serious consideration to any argument against the Federal reserve system because of the requirements imposed upon member banks,

The test to be applied in this legislation as in all others

Continued on page 118

Wiggins *Cont'd*

out of the bank, assets that proved unsound or worthless, and it is my opinion that the bank is essentially a local institution and it will best serve the function for which a bank is designed if there is that local responsibilty by stockholders and directors to depositors. Of course, it is apparent to all of us that it will practically put out of business all banks not in the guaranty fund, except such banks as are outstandingly strong and independent. A great many nonmember banks are not in a position to-day to become member banks; they would not be acceptable as member banks because on a liquidation basis of the assets of some banks to-day they could not qualify for Federal reserve membership, which would mean that these banks necessarily would pass out of the picture through the failure route.—*Extracts, see 10, p. 128.*

William S. Elliott

We are not connected as a branch or affiliated with any other institution. We are entirely independent, locally owned. We are opposed to the guaranty of deposits. We do not believe it is fundamentally sound. We do not believe it is fair to the good banks which have been built up under the independent system, under State supervision, into strong and going institutions.

We feel that to invoke the guaranty of deposits embracing all the members of the Federal reserve system would force the State banks who are not now members of the system either to come into the system and join in the contribution to the guaranty fund or go out of business. And we feel that it is not fair treatment of the country banks who are operating under State charters to require them to go into a system which probably would require our institutions to put up initially about $10,000. Instead of our showing a small profit, as we did for last year's operation, it would put us in the "red," and, as a country bank, seriously hamper our existence and our progress.

One great trouble with the banks in this country, in my opinion, is the fact that they have been failing for several years, many of them, to make any profit at all. You can not run any sort of business without some sort of profit. You at least have to break even if you are going to make a success of any business. So many of the banks have actually shown losses for several years, and the imposition of such an assessment means that any bank or banking unit operating under State charter will be very seriously embarrassed at the outset of this system, unless they go out of business.

Of course, in my opinion, it is unthinkable for a State bank to continue in operation without the guaranty if the member banks of the Federal reserve system are going to be forced to guarantee the deposits in this way. The State banks would either have to go out of business or join the system, and we feel like it would not be fair to the State banks. We have some very fine State banks in Georgia—about 275 of them—doing business, and the failures in the last couple of years have been relatively few compared to the failures throughout some other sections of the country. And I believe that the State banks, many of them, would show a deficit in net earnings if they had to contribute the relatively large amount, for them, to the guaranty system that they would be required to do under the guaranty provisions of the Steagall bill.

I do not agree to the idea of forcibly unifying the banking system of the country, because I believe that the little fellow out in the "sticks" as they call the country man frequently, living in the rural districts, should have the benefit of banking regulations that will enable him to operate and carry on his business in a safe and reasonable way. You would say to him: "You must come into the national system or go out of business." It would seriously hamper business in many of the rural districts of our own State and I am sure in other States. That is one of the greatest dangers. There are about 275 State banks in Georgia and my guess would be that at least 250 of them are not members of the Federal reserve system. And of course these banks would be forced into the Federal reserve system or go out of business.

A man can establish a private bank in Georgia and in certain communities where there have been failures, some of them national banks, a man of outstanding character and importance has established a private bank that has readily taken over all the banking operations in that particular community. I have in mind one particular community where that has been done. There is another thing: Originally the banking business was established upon character and capacity of the men who organized the bank and who operated it. The first great test for the success of any banking institution, and not only a banking institution but any kind of business enterprise, is the character and capacity of the men who are managers of it, and I do not believe that any system of guaranty of deposits can take the place of character and capacity in the making of a successful banking institution.

I feel that one indirect result of the proposed guaranty legislation will be the stimulation of a laxity on the part of the officials who run the banks, knowing that their depositors whom they have to look into the face every day on the street, can not lose anything by their mismanagement of the banks, and also laxity of intelligent effort on the part of the depositors in selecting a banking institution and supporting it and making a success of it, based upon the character and capacity of the men who are running it. I think it will develop a laxity in the business world.

If you guarantee the bank deposits, at the next session of Congress there will be bills introduced to guarantee other people. The Government is taking over under its wing a good many different business proceedings, competing in so many ways with legitimate enterprise, and taking over the doing of so much for the people, that the Government is going to be topheavy and it may topple over.—*Extracts, see 10, p. 128.*

Steagall *Cont'd*

is its effect upon the public welfare. Banks are the creatures of government, established primarily for public service and the promotion and development of agriculture, industry and commerce. It is not unfair to say that our present banking system fails to afford this service in a measure essential to national welfare. Present conditions must not be accepted as permanent. They constitute a challenge to the courage and constructive leadership of Congress. We must find a remedy. The first step is a sound plan for the protection of depositors. Some time it will be taken. Why not now?—*Extracts, see 11, p. 128.*

Hon. Robert L. Owen

THE great number of bank failures during the last two years show that 86½ per cent are small banks, and even these bank failures are really all due directly or indirectly to the stock-market crash, which ought never to have occurred.

Assuredly, in the future this country can be protected against a repetition of the experience of 1929, just as foreign countries protect themselves against such experiences.

I set this matter up quite fully on February 25, 1908, in the Senate, and there I advocated making the guaranty bank deposits a part of the banking system and the credit destabilization due to stock-market gambling.

The objection to the guaranty of bank deposits is the unfounded theory that it would be too expensive.

My answer is it would be greatly profitable, would add billions to the deposits and to the earnings of the banks.

The Federal reserve banks should be required to guarantee the deposits of member banks, and the Government of the United States should underwrite this guaranty so as to convince the people beyond the possibility of a doubt that their money is safe in the banks and will be paid to them on demand.

Here are the foundation stones upon which the banking system should rest.

At present under the national bank act there is a partial guaranty of bank deposits to the extent:

1. The capital of the bank.
2. The surplus of the bank.
3. The undivided profits of the bank.
4. The stock of the bank in the reserve banks.
5. The reserves in the reserve banks.
6. The assets of the bank.
7. The safeguards provided by law requiring the banks to observe sound banking practice.
8. The safeguards provided by the rules of the Comptroller of the Currency and the examinations made by the bank examiners of the Comptroller; the examinations made by the examiners of the Federal reserve banks; the examinations made by examiners of the clearing houses in the various cities.
9. The fact that the president of the bank, his directors, and his officials would be discredited if the bank should fail under their management.

A life-insurance company requires an examination of the individual to see that he is in good health and of good character and of good habits.

The fire-insurance companies require examination of the house insured to see that it is a safe risk.

In the same way, under a system of insuring bank deposits, the reserve banks should be given power to safeguard adequately their insurance of a bank and to impose conditions under which the insurance shall apply, and thus more completely safeguard the insurer as well as the depositors of the bank by adding to the security of the banks through an adequate administration of such bank.

It should be remembered that while this proposed reform applies to nearly 40,000,000 people, who are the backbone of this country and who have $56,000,000,000 of deposits, the guaranty bank deposit means much more than protecting of the depositors of the bank.

It means protecting the national industrial life, stability of business, stabilizing commodity values, stabilizing employment and wages, stabilizing the business of manufacturers, merchants, railroads, public utilities, professional men, labor unions, the farmers and stock raisers, and every line of human endeavor. It means stabilizing incomes of individuals, or corporations, and even of the National Government. It means bringing our national income back to normal.

It means keeping the industrial energies of America uniformly employed at maximum efficiency. It means protecting and advancing high standards of living, the health, the wealth, and the happiness of the American people.

You will meet with the plea that this system would encourage reckless banking.

Properly written, the law, with its safeguards, would guarantee the opposite.

You will meet with the charge that the system of guaranty bank deposits failed in Oklahoma, Nebraska, and other places.

The answer to this is these systems were inherently weak, based on a guaranty fund, not administered by the banks themselves but by transitory political appointees and in which the banks were divided in opinion. The banks that were well conducted were taxed unfairly by banks that had no capital adequate to meet their overhead or to protect their depositors when any unusual occurrence took place.

Properly analyzed, you will find that these objections are not sufficient to justify an argument against a sound system properly administered.

There is a great interest in this matter, but it will be necessary to build up public opinion in order that Representatives in Congress may realize that the country itself will approve, and that it desires, a sound system that will make the bank deposits absolutely safe.—*Extracts, see 10, p. 128.*

CON

F. F. Beattie

The question of a guaranty of deposits in banks is not a new thought among the States of the Nation, as has been called to your attention. Nine States of the Union have attempted, at various times, and have, over a period of a few years, quickly abandoned it by reason of the fact that the guaranty fund broke down and it became entirely too expensive to the States which have undertaken it.

I heard the argument used that this would not be applicable to a Federal system by reason of the fact of the very wide area covered by the system; and by reason of the fact that the west, and the east, and the south, and the north are dependent upon different industries and different modes of agriculture. But that argument sounds to me pretty much as the argument that was made in the establishment of branch banking down in South Carolina. The argument was made when branch banking came into vogue in South Carolina that the Piedmont section of South Carolina was very different from the coastal section of South Carolina. One was a mountainious area; the other was flat. They have different agricultural staples. One is a truck and tobacco country; the other is a cotton growing country. And the argument was further made that the branch banking would be successful by reason of the fact that when one section would need all the money it could get, the other section would not need it; that when one section would be borrowing the other one would be depositing, and it was thought it would work out pretty well. Well, gentlemen, you know it did not work out well because when one section of the State wanted money they all wanted money, and it has not been a marked success in South Carolina.

I feel that any guaranty system which we might have had in this country during the existing conditions through which we have just passed would have gone to smash. I think in normal times a guaranty fund might be built up, but when a catastrophe comes, when the crisis comes, it is going to smash.

A mutual insurance company gets along nicely so long as they do not have any fire; but a conflagration which covers the country puts it out of business.

I think it would be the most costly experiment this country could undertake, and one which would not be successful in the long run.

I think it is extremely unfair to the banks of the country which are properly managed to have to pay for some other bank which is being improperly managed. The fact that I had a bank in Greenville which I take great pride in—and permit me to say that I have not had to call upon the Reconstruction Finance Corporation nor do I anticipate that I shall have to call upon it—which was taxed to have to guarantee the soundness of somebody else's bank is extremely unfair and objectionable to the unit banks which are now in business.

You might say: "Well, should not banks see that depositors' funds are safe?" Yes, so far as our bank is concerned and so far as our depositors are concerned; but that is done by our capital being ample to protect the deposits.

I thoroughly approve of the legislation to increase the capital minimum to $50,000 and surplus. In fact, I do not know but what I would go further.

I think the Comptroller of the Currency should have greater discretion in scrutinizing communities to see whether or not a bank is needed in a particular community. He should be given wider discretion in regard to the personnel, to say whether or not they are suitable.

The argument is made that if you limit the capital to $50,000 you would cut out the small communities. A $50,000 capitalized bank could not be established in a 3,000 population community. Well, I answer that by saying a bank is not like an eating house; it does not have to be in walking distance of every man. Many people who use banks do not go to a bank once a year, and they get along very well; so that when the industrial life of a community becomes such that daily contact with a bank is needed, with good roads we have now and improved transportation facilities, it is almost impossible to conceive of a reasonable sized community which would not have access to a bank with proper capital structure.

I am thoroughly of the conclusion that bank deposits guaranty is unwise, and I think undoubtedly in the course of time it would end in a catastrophe. If it runs along pretty well it might create a fund, but I say again when we have another crisis, which we will have, your guaranty fund will be a most expensive experiment.—*Extracts, see 10, p. 128.*

Charles E. Mitchell

The affiliate in the investment banking field is not anything new. The rapid growth of the number of affiliates is comparatively new. In the case of our bank the investment affiliate is 20 years old.

The development of banking has been toward an increasing distribution of securities through banking affiliates as against distribution through private banking houses. In other words, the development in machinery of distribution that is to be expected as the investment market broadens has occurred rather in the development of the banking affiliate than in the growth of private banking firms.

We know of places where the affiliate has been abused. On the other hand, it has become an exceedingly important factor in security distribution. I think, if you were to make a study of the percentage of securities distributed through affiliates to total distribution, you would find that the percentage is very, very much higher than it has ever been in history.

The stock of our affiliate is trusteed for the benefit of our shareholders; so there is no outstanding holding of that stock and no issues that the public is directly interested in, except as through that trusteeship.

We have no prohibition against our trust affiliate, the City Bank Farmers Trust Co., which is separately or-

Continued on page 120

Winthrop W. Aldrich

It is impossible to consider the events which took place during the past ten years without being forced to the conclusion that intimate connection between commercial banking and investment banking almost inevitably leads to abuses.

For some time past the Chase National Bank has been giving serious consideration to the question of severing the connection between itself and its security affiliate. The matter was discussed at the last meeting of the directors, and a subcommittee has been appointed by the Executive Committee to report as soon as possible upon ways and means of bringing about this result.

I am entirely in sympathy with the divorcing by law of security affiliates from commercial banks. I do not think, however, that the Glass bill goes sufficiently far in separating the business of commercial banking from that of dealing in securities. To separate commercial banks from their security affiliates is only half the problem. The following additional steps should ultimately be taken:

(1) No corporation or partnership should be permitted to take deposits unless such corporation or partnership is subjected to the same regulations and required to publish the same statements as are commercial banks.

(2) No corporation or partnership dealing in securities should be permitted to take doposits even under regulation.

(3) No officer or director nor any member of any partnership dealing in securities should be permitted to be an officer or director of any commercial bank or bank taking deposits, and no officer or director of any commercial bank or bank taking deposits should be permitted to be an officer or director of any corporation, or a partner in any partnership, engaged in the business of dealing in securities.

(4) Boards of Directors of commercial banks should be limited in number by statute so as to be sufficiently small to enable the members to be actually cognizant of the affairs of their banks, and in a position really to discharge their responsibility to stockholders, depositors and the business community.

The spirit of speculation should be eradicated from the management of commercial banks, and commercial banks should not be permitted to underwrite securities except securities of the United States Government and of states, territories, municipalities and certain other public bodies in the United States.

The Federal Reserve System was founded for the purpose of serving the governmental and commercial life of the country. I think that all commercial banks should be members of the system, and that their management should be actuated solely by the desire to carry out such purposes in a sound conservative manner. In my opinion, not until the reforms above mentioned have been put into effect will this result be obtained.—*Extracts, see 9, p. 128.*

Mitchell *Cont'd*

ganized, separately operated, and separately directed, from buying securities which at some time the National City Co., our investment affiliate, may have had to do with; but we do have a definite prohibition against their buying any securities from or through the National City Co., the investment affiliate, and we go so far as to rule that even where, under a specific trust, there is a privilege stated for the trustee to buy securities directly from the investment affiliate, it must not be done. It is a fixed policy.

It always carries an account which is used to take the peaks out of an advancing or a declining market. This operation never affects the trend of the market, but permits the seller of the day or the buyer of the day to sell and buy on a more even market than otherwise. That is a thing that has been done for many, many years, and I have had an agreement with the Comptroller that we would never buy in the affiliate for fixed investment. Generally speaking, the account works itself out usually within 60 or 90 day periods.

The commercial-banking business is a business that is more or less constant and even in its production of profit. The investment banking business is a business which depends upon the state of the market over a period for a profit. I fear it would be misleading to a public to have a rapid publishing of the reports of an investment banking company. The public would get the wrong slant completely as to the earning power. Investment banking earnings are never stable. They are now up and now down. I think the publishing of a statement of the affiliate once a year is in the public interest rather than a more often publication of it.

I have very little sympathy with the views of those who depreciate the authority of the comptroller's office and of the various superintendents of banks. If these authorities have the understanding and if they have the strength of personality within their organizations, they can enforce dictation leading to sound practices, I would rather see those qualities brought into play for the enforcement of proper banking, than I would to see various prohibitions come into the law with respect thereto or the granting of authority that over a period of years and with various men holding such offices, may be used not to the welfare of the shareholders and the public but to the embarrassment of banks and of banking management.

But I think there is a very good reason for the dealings by an affiliate company in the shares of a parent bank provided such dealings do not go so far in any case as to involve permanent ownership by the affiliate.

I can understand how the operations of an affiliate in the shares of a bank might be definitely abused. I think that is something that we would best not prohibit by legislation, but something that the comptroller should watch with care in his examination and if he finds at any time that it is operating to the detriment of the shareholders or contrary to the real, fundamental reasoning of the law, then it is something which he can stop.—*Extracts, see 8, p. 128.*

The 73d Congress « « Now in Session

Duration—March 4, 1933-March 4, 1935. First Session Convened March 9, 1933.

In the Senate

Membership
Total—96

59 Democrats — 36 Republicans

1 Farmer-Labor

Presiding Officer

President: John N. Garner, D.
Vice-President of the United States

Floor Leaders

Majority Leader
Joseph T. Robinson, Ark., D.

Minority Leader
Charles L. McNary, Ore., R.

Officers

President Pro Tempore
Key Pittman, Nev., D.

Secretary
Edwin A. Halsey

Sergeant at Arms
Chesley W. Jurney

Chaplain
Dr. ZeBarney Thorne Phillips, D. D.

In the House

Membership
Total—435

312 Democrats — 117 Republicans

5 Farmer-Labors
1 Vacancy

Presiding Officer

Speaker: Henry T. Rainey, D.
Member of the House from Illinois

Floor Leaders

Majority Leader
Joseph W. Byrns, Tenn., D.

Minority Leader
Bertrand H. Snell, N. Y., R.

Officers

Clerk of the House
South Trimble, Ky.

Sergeant at Arms
Kenneth Romney

Doorkeeper
Joseph J. Sinnott

Chaplain
Rev. James Shera Montgomery, D. D.

The Month in Congress— —

Political Developments

Desirous of getting a fairminded, unprejudiced view of how the Roosevelt Administration was getting along at the end of its first two weeks in office, a Washingtonian went to the Capitol and sought out two observant and experienced Senators and asked them what they thought.

The first Senator is a liberal Republican, not tied up with the so-called Progressive group, but more or less of a free lance.

"Roosevelt," he said, "made a grand slam with the first hand he picked up, but the tournament is just beginning."

The second Senator, who is a regular Democrat and who was not particularly for or against Roosevelt prior to his nomination, was told what the first Senator had said.

"I agree with him, but I'll express it in golf terms: Roosevelt made an eagle on the first hole—but this is a thirty-six hole match."

In neither case was carping criticism intended. The man who sought the opinion of the two Senators did so because he knew they would try to size up the situation from a detached point of view and would give it the same cold blooded analysis a highly trained military officer would give to a battle problem.

Men who view the situation as do these two Senators have no illusions about the difficulties confronting the new Administration. They have no fault to find with the manner in which Mr. Roosevelt has conducted himself up to date. But they feel that the real test is yet to come.

In the case of the emergency banking act and the economy act, they point out that the President had the solid backing of the country. It is true that many veterans' organizations opposed the Economy Act, but the overwhelming majority was for it. The same was true of the beer bill. There was more opposition to that than to either of the other two measures, but the majority in its favor was great enough to put it over without serious trouble.

The fact that the President has held up patronage in order to keep Democratic Senators and Representatives in line meets with the approval of all practical politicians. These gentry point out, however, that there is a lurking danger in that policy. They say the Administration must loosen up fairly promptly on patronage or run the risk of making enemies out of some of its present friends. Keeping the boys guessing for a limited period is good politics, but, according to the practical politicians, the President must be careful not to overplay his hand in this direction.

Getting in direct touch with the public via the radio also meets with the approval of those who know how to play good, sound politics. This, they point out, is, in effect what Theodore Roosevelt and Woodrow Wilson did with great success. Whenever they got in a jam with the

politicians they went over their heads and appealed direct to the people with telling results. They didn't have the radio, but used the platform and the press for the same ends. How well Franklin D. Roosevelt can perform in this direction the politicians do not know, but they are frank to say that he made a good start.

When it comes down to the fourth and fifth demands made of Congress—demands for the passage of the agricultural aid bill and the forestry-employment bill, observant politicians are not so certain of their conclusions.

The first question they raise is that of economy. If, they point out, the President got such prompt approval for the bill giving him powers to cut down the Government departments and to cut down veterans' allowances, it was because the tax payers of the country want the cost of government reduced.

As one Senator put it, "The people are willing for him to have the power drastically to cut expenses. The man on the Government payroll is none too popular just now and nobody would kick over the dismissal of several thousand Government employees and the striking from the pension rolls of many thousand ex-soldiers. But the President, now that he has this power, must go down the line. If he does not show up by July 1 with some real economy, his present prestige will suffer tremendously. And how is he going to show real economy if he saves with one hand and spends with the other?"

This comment referred chiefly to the farm bill which, it is suspected, may require the expenditure not only of a great deal of money but the appointment of a large number of Federal employees in its administration.

As this is being written, strong opposition to the farm bill is developing in Congress. Likewise there is opposition to the forestry-employment bill.

President Roosevelt's close friends are unperturbed by the forebodings on Capitol Hill. They smile and say that every criticism has been anticipated by the President and his political advisers and that they know exactly what they are doing.

In proof of this they call attention to the fact that on the day he took office, Mr. Roosevelt was fully prepared to meet the extraordinary situation that confronted him. He is equally prepared, they declare, to take care of the next steps.

Replying to the criticism of the money spending features of the agriculture and forestry-employment bills, they point out that until the agricultural situation is cleared up prosperity cannot come and that money spent in that direction is money invested and not money wasted; that the forestry-employment idea is merely a temporary plan to absorb some of the unemployed until a more permanent plan can be worked out.

So, it will be observed, opinion in Washington is, as usual, divided. The ardent Roosevelt supporters declare he is making good with a vengeance. His opponents say he is going too fast and that some of his projects are unsound. The unbiased say he has made a good start but that matters have not developed to the point where an accurate estimate of his Administration can be made.

Progress Made by Major Legislation

From February 21st to March 24th, 1933

Agriculture

On March 16 the President sent the following message to Congress asking immediate consideration of a bill to aid agriculture:

"At the same time that you and I are joining in emergency action to bring order to our banks, and to make our regular Federal expenditures balance our income, I deem it of equal importance to take other and simultaneous steps without waiting for a later meeting of the Congress.

"One of these is of definite, constructive importance to our economic recovery.

"It relates to agriculture and seeks to increase the purchasing power of our farmers and the consumption of articles manufactured in our industrial communities; and at the same time greatly to relieve the pressure of farm mortgages and to increase the asset value of farm loans made by our banking institutions.

"Deep study and the joint counsel of many points of view have produced a measure which offers great promise of good results. I tell you frankly that it is a new and untrod path, but I tell you with equal frankness that an unprecedented condition calls for the trial of new means to rescue agriculture.

"If a fair administrative trial of it is made and it does not produce the hoped-for results I shall be the first to acknowledge it and advise you.

"The proposed legislation is necessary now for the simple reason that the spring crops will soon be planted and if we wait for another month or six weeks the effect on the prices of this year's crops will be wholly lost.

"Furthermore, by action at this time the United States will be in a better position to discuss problems affecting world crop surpluses at the proposed world economic conference."

On the same day a bill (H. R. 3835) to carry out the President's wishes was introduced by Representative H. P. Fulmer, S. C., D., ranking Democrat on the House Committee on Agriculture. On March 20 the bill was reported from the Committee on Agriculture and on March 22 was passed by the House by a vote of 315 to 98. An identical bill (S. 507) was introduced in the Senate by Senator Ellison D. Smith, S. C., D., chairman of the Committee on Agriculture and Forestry. On March 24 the Senate committee began hearings on the bill.

The main features of the bill, as passed by the House are as follows:

Seeks by balancing production and consumption to reestablish farmers' pre-war purchasing power, based on 1909-1914 prices.

Permits cotton planters to take options on Government-owned cotton, provided they agree to reduce their 1933

production by at least 30 per cent, and arrange for sale of options at a higher price expected to result from curtailed production.

Gives Secretary of Agriculture power to provide for reduced acreage or production of any basic agricultural commodity through agreements with producers and to provide for rental or benefit payments to the farmers to bring the curtailment about.

Defines wheat, cotton, corn, hogs, cattle, sheep, rice, tobacco and milk as "basic agricultural commodities."

Fixes the payments to farmers "in such amounts as the Secretary deems fair and reasonable to be paid out of any moneys available for such payments."

Authorizes the Secretary to enter marketing agreements with and to license processors, associations of producers and other agencies handling farm products in interstate or foreign commerce. Such processors and associations would be entitled to receive loans from the Reconstruction Corporation.

Levies a tax on the processor of any basic agricultural commodity to raise the revenues needed to carry out the emergency law, the tax to equal the difference between current average prices and the fair exchange value based on pre-war prices.

Provides that the act shall cease to be in effect whenever the President proclaims the agricultural emergency has ended.

Strong opposition to the bill in the Senate is expected and it is generally thought that it will be amended by the committee before being reported to the Senate. Its ultimate passage seems highly probable, but the nature of the amendments which will be made cannot be foretold at this time.

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Beer

On March 13 the President sent to Congress his famous 72-word message urging the passage of a beer bill, the text of which follows:

"To the Congress: I recommend to the Congress the passage of legislation for the immediate modification of the Volstead act, in order to legalize the manufacture and sale of beer and other beverages of such alcoholic content as is permissible under the Constitution and to provide through such manufacture and sale, by substantial taxes, a proper and much needed revenue for the Government.

"I deem action at this time to be of the highest importance."

On March 14 the House Committee on Ways and Means reported H. R. 3341, which had been introduced by Representative Thomas H. Cullen, a Tammany Member from New York, and the bill was immediately passed on that day by a vote of 316 to 97.

The Cullen bill was reported to the Senate by the Committee on Finance, with amendments, on March 15 and passed by a vote of 43 to 30. The bill, as passed by the House, fixed the alcoholic content of beer at 3.2 per cent. The Senate amended the bill by making the content 3.05 per cent and including wines. The bill went to conference, where the House provision for 3.2 per cent was restored. The conference report was agreed to by the Senate on March 20 and by the House on March 21. The bill was signed by the President on March 22.

The bill becomes effective 15 days after it was signed by the President, or on April 7. It provides for the manufacture and sale of beer and wines containing not more than 3.2 per cent alcohol. A revenue tax of $5 a barrel is placed on beer.

The eighteenth amendment, which became effective January 16, 1920, provides specifically that:

The manufacture, sale, or transportation of intoxicating liquors within, the importation thereof into, or the exportation thereof from the United States and all territory subject to the jurisdiction thereof for beverage purposes is hereby prohibited. The Congress and the several States shall have concurrent power to enforce this article by appropriate legislation."

The Volstead act was passed by Congress in October, 1919, over President Wilson's veto, to enforce the eighteenth amendment when it came into effect. The Volstead act described as "intoxicating" brandy, whisky, rum, gin, beer, ale, porter and wine containing one-half of 1 per cent alcohol or more.

The new law amends the Volstead act so as to exempt beer, ale, porter, stout, other malt beverages and wines which do not contain more than 3.2 per cent alcohol.

The effect of the new law simply is to declare non-intoxicating the beverages named which contain no more than 3.2 per cent alcohol.

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Economy

On March 10 the President sent a message to Congress asking for powers to reduce Government expenditures, giving as his reason the financial condition of the Federal Treasury. A bill to carry out the President's recommendation was introduced in the House by Representative John McDuffie, Ala., D. (H. R. 2820) was passed by the House on March 11 and by a vote of 266 to 138 and by the Senate on March 15, by a vote of 62 to 13, after two days' debate, embodying amendments recommended by the Senate Committee on Finance. On March 16 the House accepted the Senate amendments and the bill was signed by the President.

An Associated Press summary gives the provisions of the bill as follows:

It specifies that pensions may be received by:

Any person disabled by disease or injury in the active military or naval service or permanently disabled in service during the Spanish-American War, the Boxer rebellion, the Philippine insurrection or the World War.

The widow, child or children, dependent mother or father of any person who dies of disease or injury incurred in active military or naval service.

The widow and (or) child of any deceased person who served in the active military or naval service during the Spanish-American War, the Boxer rebellion and the Philippine insurrection.

The monthly pension for disability shall be from $6 to $275 and for death from $12 to $75, the rates now in effect. Within these limits, the President is authorized to prescribe the rates payable to the different classes of veterans and their dependents.

For persons specified in the first and second categories, the President is authorized to prescribe the minimum

degree of disability and such higher degree, if any, as in his judgment should be recognized. He also is authorized to prescribe the rate of pension payable for each degree of disability.

The President is empowered to differentiate among veterans who served in different wars, those who performed different types of service in the same war, and in payments for disabilities and deaths resulting from (1) service-connected injuries or diseases incurred in wartime service; (2) those resulting from service-connected diseases or injuries incurred in peace-time service; (3) those resulting from nonservice-connected diseases or injuries.

The date of the beginning and termination of each war (after the Civil War) may be fixed by the President for the purpose of determining the amount of war-time service to be allowed. He may specify the required number of days of war of peace-time service a veteran shall be entitled to a pension and issue such regulations as he may deem equitable and just.

The Chief Executive may prescribe that persons with certain incomes shall not be entitled to pensions.

All decisions by the administrator of veterans' affairs under regulations issued by the President are conclusive on all questions of law and fact and are not reviewable either by any other Government official or by the courts.

The administrator of veterans' affairs is authorized to furnish domiciliary care to veterans of any war suffering with permanent disabilities, and medical and hospital treatment for diseases or injuries incurred or aggravated in line of duty in the active military or naval service.

The administrator of veterans affairs is authorized to administer the provisions of the measure, subject to the general directions of the President and in accordance with regulations issued by the Chief Executive. He may delegate this authority to subordinates.

Claims for benefits under the measure shall be filed with the Veterans' Administration under such regulations as the President may approve. If a claim is disallowed, it may not thereafter be reopened or allowed.

No former emergency officer may continue to draw retirement pay unless the disability for which he was retired resulted from disease or injury, or aggravation of a preexisting disease or injury, which was incurred in line of duty between April 6, 1917, and November 11, 1918, the period of the World War, and it resulted directly from the performance of military or naval duty.

All laws granting medical or hospital treatment, domiciliary care, compensation, pension, disability allowance or retirement pay to veterans of the Spanish-American and subsequent wars or to former members of the military or naval service for injury or disease incurred or aggravated in line of duty are repealed with the exception of those relating to the retirement of officers and enlisted men of the regular Army, Navy or Marine Corps.

These payments will be continued until June 30. In the meantime, all the claims will be reviewed and those allowed will be continued in force without any suspension. Payments on regular yearly renewable term insurance which have matured prior to enactment of the measure will not be affected. Neither will judgments which may hereafter be rendered in suits now pending under these contracts. Regulations issued by the President that are in effect two years after enactment of the measure shall continue in force until Congress changes them.

Compensation of Government employes, including military personnel, for the next fiscal year beginning July 1, and for the remainder of the present fiscal year shall be readjusted to conform to the cost of living, provided the reduction placed in effect does not exceed 15 per cent.

The President is authorized to determine the cost of living for the first six months of 1928, and to establish an index figure for this period to be used as a base. He also is to ascertain the index figure for the last six months of 1932 and for each six months thereafter.

The percentage by which the cost of living index for any six-month period is lower than the index for the base period is the percentage reduction applicable to Government salaries, provided it not be more than 15 per cent.

Salaries of the Vice President, Speaker, senators and members of the House are reduced a flat 15 per cent. The reduction is now 10 per cent.

President Roosevelt, whose salary under the Constitution can not be diminished while he is in office, may voluntarily subject himself to the law.

The furlough provisions of the 1932 economy act, under which Government salaries were cut 8 1/3 per cent, are repealed along with the provisions suspending annual leave with pay.

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Forestry Employment

On March 21 the President sent to Congress the following message urging the enactment of legislation for unemployment relief:

"To the Congress:

"It is essential to our recovery program that measures immediately be enacted aimed at unemployment relief. A direct attack in this problem suggests three types of legislation.

"The first is the enrollment of workers now by the Federal Government for such public employment as can be quickly started and will not interfere with the demand for or the proper standards of normal employment.

"The second is grants to States for relief work.

"The third extends to a broad public works labor-creating program.

"With reference to the latter I am now studying the many projects suggested and the financial questions involved. I shall make recommendations to the Congress presently.

"In regard to grants to States for relief work, I advise you that the remainder of the appropriation of last year will last until May. Therefore, and because a continuance of Federal aid is still a definite necessity for many States, a further appropriation must be made before the end of this special session.

"I find a clear need for some simple Federal machinery to coordinate and check these grants of aid. I am, therefore, asking that you establish the office of Federal Relief Administrator, whose duty it will be to scan requests for grants and to check the efficiency and wisdom of their use.

"The first of these measures which I have enumerated,

however, can and should be immediately enacted. I propose to create a civilian conservation corps to be used in simple work, not interfering with normal employment, and confining itself to forestry, the prevention of soil erosion, flood control and similar projects. I call your attention to the fact that this type of work is of definite, practical value, not only through the prevention of great present financial loss, but also as a means of creating future national wealth. This is brought home by the news we are receiving today of vast damage caused by floods on the Ohio and other rivers.

"Control and direction of such work can be carried on by existing machinery of the Departments of Labor, Agriculture, War and Interior.

"I estimate that 250,000 men can be given temporary employment by early summer if you give me authority to proceed within the next two weeks.

"I ask no new funds at this time. The use of unobligated funds, now appropriated for public works, will be sufficient for several months.

"This enterprise is an established part of our national policy. It will conserve our precious natural resources. It will pay dividends to the present and future generations. It will make improvements in national and State domains which have been largely forgotten in the past few years of industrial development.

"More important, however, than the material gains will be the moral and spiritual value of such work. The overwhelming majority of unemployed Americans, who are now walking the streets and receiving private or public relief, would infinitely prefer to work. We can take a vast army of these unemployed out into healthful surroundings. We can eliminate to some extent, at least, the threat that enforced idleness brings to spiritual and moral stability. It is not a panacea for all the unemployment but it is an essential step in this emergency. I ask its adoption."

This proposal met with immediate and vehement opposition from the American Federation of Labor and from those members of the House and Senate who are against anything that appears to stand in the way of a program of rigid economy in government expenditures.

As a result of this opposition the House and Senate Committees on Labor decided to hold joint hearings on the bills by Representative Joseph Byrns, Tenn., D. (H. R. 3905), and Senator Joseph T. Robinson, Ark., D. (S. 598), beginning on March 23, when Miss Frances Perkins, Secretary of Labor, was scheduled to appear and explain the legislation recommended by the President.

Politics

1. *The science and art of government; the science dealing with the organization, regulation, and administration of a State, in both its internal and external affairs; political science; also, formerly, that branch of ethics dealing with the ethical relations and duties of states or social organizations.*

2. *The theory or practice of managing or directing the affairs of public policy or of political parties; hence, political affairs, principles, convictions, opinions, sympathies, or the like; in a bad sense, artful or dishonest management to secure the success of political candidates or parties.—Webster's New International Dictionary.*

The Students' Laboratory

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The Students' Question Box

Solutions of Problems Involving the Practical Application of the Theory of the American Government

Articles on the Operation of the Federal Government

Replies to Queries

Q. Can the Speaker of the House of Representatives be removed from the chair? R. L.

A. Yes, a Speaker may be removed at the will of the House, and a Speaker pro tempore appointed.

Q. Does the House of Representatives at anytime hold Secret Sessions? N. G.

A. Rule XXIX of the House Rules reads:

"Whenever confidential communications are received from the President of the United States, or whenever the Speaker or any Member shall inform the House that he has communications which he believes ought to be kept secret for the present, the House shall be cleared of all persons except the Members and Officers thereof and so continue during the reading of such communication, the debates and proceedings thereon, unless otherwise ordered by the House."

This rule was adopted in 1792, although secret sessions of the House had been held before that date, Secret sessions were frequently held up to about 1830. In 1880, when the House Rules underwent general revision, this rule was retained but it has long been in disuse, and never, in modern times, has the House held a secret session. Caucuses of the Political parties are always secret, but they are not a part of the procedure of the House.

Q. What is meant by the Caucus?

A. A caucus is a meeting of the members of a party, usually to determine party policy. A caucus was held by the Democrats of the House on the morning of March 11, 1933, to determine the party attitude on the Economy Bill, giving the President authority to reorganize the departments. The effect of the decisions arrived at in caucus is to bind the members of the party to solidarity. Not only is it valuable in this regard, but it is also a protection to individual party members.

In the case of the Economy Bill, many Democratic Members of the House found themselves in an embarrassing position. A Democratic President was asking them to vote him power which they well understood would be used to reduce veterans' compensations. Their districts were full of veterans who were vigorously opposing the bill. Without caucus action every Democrat in the House would be standing on his own feet. But, backed by the action of the party caucus he could vote to support the President and explain his vote as being in the interests of party solidarity. The Caucus of the House Democrats voted to support the President on the Economy Bill and thus paved the way for its passage in the House.

Q. What becomes of the remainder of an appropriation at the end of the fiscal year? E. E.

A. When an appropriation is voted by Congress to defray certain expenses of the Government, that appropriation is good for one fiscal year—July 1 to June 30, only. If all the money is not spent during the year, what is left over automatically goes back into the Treasury. Specific Congressional authority must be given if that remainder or any part of it is to be spent during the next year.

Q. Has the President the power to declare Congress adjourned? M. J. P.

A. The Constitution of the United States provides (Art. II, Sec. 3) that the President "* * * may, on extraordinary Occasions, convene both Houses, or either of them, and in Case of Disagreement between them, with Respect to the Time of Adjournment, he may adjourn them to such Time as he shall think proper * * *." Thus, while the President may call Congress into extraordinary session whenever he thinks the needs of the country require such action, his power to adjourn Congress is limited to an occasion when one of the houses wants to adjourn and the other does not.

The Constitution provides (Art. I, Sec. 5) that "Neither House, during the Session of Congress, shall, without the Consent of the other, adjourn for more than three days, nor to any other Place than that in which the two Houses shall be sitting." Congress is adjourned for more than three days by a concurrent resolution. Until the Sixty-seventh Congress neither house had ever adjourned for more than three days by itself with the consent of the other. On June 30, 1922 (67th Cong., 2d Sess.), the House adjourned until August 15, 1922, with the consent of the Senate.

How Uncle Sam's Laws Are Made

Series by Norborne T. N. Robinson

The following article is the eleventh of a series of consecutive articles in which all phases of House and Senate procedure will be described. The articles are being prepared with the aid of the leading parliamentary authorities at the Capital, including members of both the Senate and the House and officers of those bodies.

The Trial of Impeachments

For the first time in twenty years and for the eleventh time in history the House has voted to impeach a Federal officer and the case will be tried by the Senate, sitting as a Court of Impeachment, beginning on April 11, at 12.30 p. m.

The officer is Judge Harold Louderback, United States District Judge for the Northern District of California. He is charged with misconduct in office in connection with the appointment of receivers in bankruptcy cases. The charges have to do with alleged favoritism in the selection of receivers and attorneys and the allowance of excessive fees.

The last effort at impeachment was that made by Representative Louis T. McFadden of Pennsylvania who offered two separate resolutions to impeach President Hoover in the last Congress. Both were defeated by an overwhelming vote.

In 1926 the House voted to impeach Judge George W. English, District Judge for the Eastern District of Illinois, but Judge English resigned before the Senate met to try his case.

Other officers impeached by the House and tried by the Senate were:

William Blount, Senator from Tennessee, 1798; sedition; charges dismissed for want of jurisdiction.

John Pickering, District Judge from New Hampshire, 1803-04; drunkenness; removed from office.

Samuel Chase, Associate Justice of Supreme Court, 1804-05; misconduct at trials; acquitted.

James H. Peck, District Judge from Missouri, 1830-31; tyrannous treatment of counsel; acquitted.

West H. Humphreys, District Judge from Tennessee, 1862; secession support; removed from office.

Andrew Johnson, President, 1868; law unsurpation; acquitted.

William W. Belknap, Secretary of War, 1876; bribery; acquitted, after he had resigned.

Charles Swayne, District Judge from Florida, 1904-05; official misconduct; acquitted.

Robert W. Archibald, Associate Judge of United States Commerce Court, 1912-13; collusion; removed from office.

George W. English, District Judge from Illinois, impeached in 1926 and resigned before trial.

Harold Louderback, District Judge from California, impeached Feb. 24, 1933.

The provisions of the Constitution of the United States covering impeachment are as follows:

Art. 1. Sec. 2. Par. 5—"The House of Representatives x x x shall have the sole Power of Impeachment."

Art. 1. Sec. 3. Par. 6—"The Senate shall have the sole Power to try all Impeachments. When sitting for that purpose, they shall be on Oath or Affirmation. When the President of the United States is tried, the Chief Justice shall preside: And no Person shall be convicted without the Concurrence of two-thirds of the Members present."

Par. 7—"Judgment in Cases of Impeachment shall not extend further than to removal from Office, and disqualification to hold and enjoy any Office of honor, Trust, or Profit under the United States: but the Party convicted shall nevertheless be liable and subject to Indictment, Trial, Judgment and Punishment, according to Law."

There are various methods of setting an impeachment in motion in the House. Charges may be made on the floor by a Member; the President may request the House to consider an impeachment or charges may be made by State Legislatures, grand juries or charges may grow out of investigations made by Congressional Committees.

In the case of Judge Louderback, the Bar Association of San Francisco, upon complaint of members, investigated the charge that Judge Louderback was guilty of improper conduct, concluded that he was and, early in 1931, sent a report to that effect to the Department of Justice. The Attorney General forwarded the report to the House Committee on the Judiciary. The Committee, after an examination of the charges, appointed a subcommittee composed of Chairman H. W. Sumners, Tex., D.; Representative Fiorella La Guardia, N. Y., R., and Representative Gordon Browning, Tenn., D., who went to San Francisco and held hearings.

A resolution was introduced by Representative La Guardia to impeach Judge Louderback. The accused later came to Washington voluntarily and appeared before the Committee for a hearing. A majority of the Committee voted an adverse report on the La Guardia resolution and a minority report was made in favor of it.

After four hours debate the House, on February 24, 1933, adopted the minority report by a vote of 183 to 97, and sent the resolution to the Senate.

On April 7 the Senate will meet as a Court of Impeachment and the managers of the impeachment from the House will appear and present the articles of impeachment. These managers will be Representative Sumners, Chairman of the Committee on the Judiciary, and four other Members designated by him. The Senate will then summon the accused and a regular trial will proceed.

Usually the Senate sits for several hours each day as a Court of Impeachment, and then devotes the rest of the day to its regular duties. When the trial is concluded the Senate votes on the question of whether the accused shall be impeached. Unless two-thirds of those present vote for impeachment, the accused stands acquitted.

President Roosevelt's Cabinet

CORDELL HULL, Tennessee, Secretary of State.
WILLIAM H. WOODIN, New York, Secretary of Treasury.
GEORGE H. DERN, Utah, Secretary of War.
HOMER S. CUMMINGS, Connecticut, Attorney General.
JAMES A. FARLEY, New York, Post Master General.
CLAUDE A. SWANSON, Virginia, Secretary of the Navy.
HAROLD L. ICKES, Illinois, Secretary of the Interior.
HENRY A. WALLACE, Iowa, Secretary of Agriculture.
DANIEL C. ROPER, South Carolina, Secretary of Commerce.
FRANCES PERKINS, New York, Secretary of Labor.

This Month's Contributors

Winthrop W. Aldrich, Chairman of Governing Board and President, Chase National Bank.

F. F. Beattie, Pres., First National Bank, Greenville, South Carolina.

Hon. Sam G. Bratton, U. S. Senator, N. Mex., D.

William S. Elliott, Vice Pres., Bank of Canton, Canton, Ga.; Vice Pres., Georgia Bankers' Assn.

Hon. Carter Glass, U. S. Senator, Va., D.

Thomas W. Lamont, Banker, Member of the Firm, J. P. Morgan and Company.

Felix M. McWhirter, President, Peoples' State Bank, Indianapolis, Ind.

Charles E. Mitchell, Chairman National City Bank, N. Y.

Hon. Robert L. Owen, Former Democratic Senator from Oklahoma.

Edmund Platt, V. Pres., Marine Midland Group; formerly Vice Governor Federal Reserve Board.

Hon. Henrik Shipstead, U. S. Senator, Minn., F.-L.

Hon. Henry B. Steagall, U. S. Rep., Ala., Dem., Chairman House Committee on Banking and Currency.

A. L. Wiggins, Pres., S. Carolina Bankers' Assn.

Owen D. Young, Chairman of the Board, General Electric Company.

This Month's Sources

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2—Congressional Record, January 10, 1933.
3—Congressional Record, January 24, 1933.
4—Speech before the Academy of Political Science, N. Y., November 18, 1932.
5—American Bankers' Association Journal, July, 1932.
6—Editorial, Commercial and Financial Chronicle, November 26, 1932.
7—Hearings, Sub. Com., Senate Committee on Banking and Currency, February 4, 1931.
8—Hearings, Sub. Com., Senate Committee on Banking and Currency, February 2, 1931.
9—Press Statement, March 8, 1933.
10—Hearings, Sub. Com., House Committee on Banking and Currency, March 14 to April 8, 1932.
11—Report, Sub. Com., House Committee on Banking and Currency, April 19, 1932.